January 8, 2009

Alberta Utilities Commission
Utilities Division, Calgary Office
Fifth Avenue Place East
400, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Cameron Taylor

Dear Cameron:

Re: AESO Evidence in Review and Variance of Decision 2007-106
Application No. 1566390 and Proceeding ID. 108

On December 2, 2008, the Alberta Utilities Commission (“AUC”) issued a process schedule (subsequently revised on December 22, 2008, and January 7, 2009) for the review and variance (“R&V”) of Decision 2007-106 regarding the AESO’s 2007 General Tariff Application (“GTA”). This letter provides the AESO’s evidence as permitted by that process.

1. Relevant Evidence Previously Filed in the AESO’s 2007 GTA

The AUC’s process schedule included the following direction:

However, in order that sufficient evidence is on the record to enable the Commission to make a determination on the Review Question, the Commission directs both the Applicants and the AESO to assemble and re-file any evidence previously filed in the Alberta Electric System Operator 2007 General Tariff Application (Application No. 1485517) proceeding that is relevant to the Review Question.

The AESO has provided with this letter all evidence it had previously filed with respect to the 12% prepaid O&M charge that is the subject of the Review Question. This previously-filed evidence is comprised of:

(a) Section 6.5.2 (pages 13-15 of section 6, Exhibit 007) of the AESO’s Application dated November 3, 2006;
(b) Responses to Information Requests (“IRs”) BR.AESO-012 (including Attachment BR.AESO-012 which is IR Response ALPAC.AESO-003 from the AESO’s 2005-2006 GTA) and BR.AESO-013 dated January 24, 2007 (Exhibits 080 and 089);

(c) Section 4.3 (pages 86-87) of the AESO’s Written Argument dated June 21, 2007; and

(d) Comments in section 1.1 (page 2, line 37, through page 3, line 2) of the AESO’s Written Reply Argument dated July 13, 2007.

The AESO believes that TransCanada Energy was the only other party who commented on the 12% prepaid O&M charge during the AESO 2007 GTA proceeding. The AESO understands that the Applicants will be submitting TransCanada Energy’s previously-filed comments with their evidence in this R&V proceeding.

The AESO considers that its own previously-filed evidence provides a comprehensive summary of its views with respect to the prepaid O&M charge.

2. Effects of the 12% Prepaid O&M Charge

The AESO notes that the AUC has determined the Review Question to be, “Did the Board err in failing to adequately consider the effects of the 12% prepaid O&M charge within the context of the AESO’s contribution policy?” In the context of the Review Question, the AESO considers the effects of the 12% prepaid O&M charge to be as follows, consistent with its previously-filed evidence:

1. O&M costs associated with standard service obtained through Standard Facilities would be recovered both through the DTS rate paid by all DTS customers and through contributions paid by some DTS customers.

2. DTS customers who paid contributions prior to January 1, 2006 (that is, prior to the addition of the O&M charge) would pay only the O&M costs recovered through the DTS rate. DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) would pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions. The DTS rate is the same for both groups of customers, resulting in intergenerational inequity between those groups.

3. If the AESO’s maximum investment level is regularly adjusted such that a consistent proportion of DTS customers is not subject to contributions, the maximum investment level will generally increase to offset project cost increases due to the application of an O&M charge. Such increases will diminish any economic signals sent through the inclusion of the O&M charge in the AESO’s contribution policy.

4. The AESO’s contribution policy will include an O&M charge on all costs, while the contribution policies of distribution facility owners (“DFOs”) will not include an O&M charge or will include an O&M charge only on “optional facilities” for load customers. These differences will reduce the harmonization between the AESO’s and DFOs’ contribution policies.
5. TFOs would need to modify their accounting processes to properly record the O&M charge as a prepaid expense rather than as a contribution in aid of construction.

6. The AESO would need to develop consistent practices to address:
   • application of the O&M charge to contract terms shorter than 20 years;
   • changes to the O&M charge resulting from increases, decreases, and staging of contract capacity; and
   • impacts on the O&M charge of sharing of facilities or of reclassification of facilities between system and customer.

3 Costs to Which the O&M Charge Could Apply

The AESO also notes the matter raised by TransAlta in its April 10, 2008, comments on the R&V application, and replied to by the Applicants, on distinguishing between categories of interconnection costs to which the O&M charge could apply. TransAlta identified three categories of costs (summarized on page 7 of AUC Decision 2008-090):

(i) the cost of facilities in excess of Standard Facilities, recovered through customer contribution;
(ii) for Standard Facilities, those costs above the AESO’s maximum investment and recovered through customer contribution; and
(iii) for Standard Facilities, those costs up to the AESO’s maximum investment and recovered through the DTS rate.

Consistent with the approach proposed in its 2007 GTA, the AESO submits that it is appropriate to assess an O&M charge on the cost of excess facilities (category (i) above), but inappropriate to assess such a charge on the cost of Standard Facilities whether above (category (ii)) or below (category (iii)) the AESO’s maximum investment.

The AESO’s tariff defines “AESO Standard Facilities” as “the least-cost interconnection facilities which meet good transmission practice including applicable reliability, protection, and operating criteria and standards…” (AESO Terms and Conditions, Article 1.1). Facilities less than this would generally not be able to supply the customer’s load while meeting applicable standards. The cost of Standard Facilities is eligible for investment, up to the AESO’s maximum investment based on the service’s contract capacity (the category (iii) costs described by TransAlta). The cost of Standard Facilities which is eligible for investment but is above the AESO’s maximum investment is recovered through customer contribution (category (ii) costs). The customer generally has no ability to reduce the cost of an interconnection below that of Standard Facilities.

Alternatively, facilities in excess of standard are not considered by the AESO to be necessary to supply the customer’s load (although an individual customer may consider those facilities to be necessary for flexibility, reliability, or other reasons). Excess facilities are not eligible for investment, and are recovered from the customer as a customer contribution (category (i) costs). A customer generally has the choice of paying a contribution for excess facilities, or of accepting service through Standard Facilities and avoiding the excess facilities contribution.
The AESO understands that O&M costs associated with Standard Facilities have traditionally been recovered as an operating expense through rates, both within Alberta and in other jurisdictions, and by both distribution and transmission entities. Recovering such costs through rates is consistent with customers paying for system access service rather than specific facilities. Attempting to differentiate between O&M costs associated with Standard Facilities below and above maximum investment creates fairness issues as DTS charges are based on actual and historical demand for the service, and such demands may be significantly above the contract capacity which determines maximum investment. In general, all of the effects of the 12% prepaid O&M charge discussed in section 2 of this evidence apply when the O&M charge is assessed against those costs of Standard Facilities above the AESO’s maximum investment.

On the other hand, facilities in excess of standard are not considered necessary to supply the customer’s load and provide system access service. The excess facilities are being provided only at the request of a specific customer, and it is inappropriate to include O&M costs associated with those facilities in the DTS rate charged to all other customers. The AESO considers that the customer can choose to be served through “Standard Facilities” and accordingly avoid the associated O&M charge.

The AESO also understands that no DFO in Alberta currently adds an O&M charge to the cost of facilities necessary to provide service to a load customer, whether the cost of those facilities is below or above the DFO’s maximum investment. As well, one DFO, FortisAlberta, adds a prepaid O&M charge only to facilities beyond those required for the provision of standard service. The AESO therefore submits that assessing an O&M charge only on facilities in excess of standard increases consistency with DFO contribution policies.

Finally, limiting the O&M charge to facilities in excess of standard may reduce its impact to a level where TFO accounting processes and AESO practices may not need to be modified.

For the above reasons, the AESO submits that the O&M charge should not apply to the cost of Standard Facilities (whether below or above AESO maximum investment), and should only apply to the cost of facilities in excess of standard.

If you have any questions on this evidence or need any additional information, please contact me at 403-539-2465 in Calgary or by e-mail to john.martin@aeso.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

Attachments

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
(d) a material error is detected in the original calculation;
(e) there is a material difference between the estimated costs of the project and the actual costs of the project;
(f) the AESO subsequently deems that all or part of a Customer’s Facilities have subsequently become system-related; or
(g) the period of advancement as set out in Article 9.3(c) is materially reduced.

Proposed Article 9.9 (emphasis added)

Certain material events may, in the AESO’s sole opinion, result in an adjustment to the Customer Contribution and as appropriate, payments by the AESO to the Customer or by the Customer to the AESO. Adjustment calculations will rely on the tariff in effect at the time of the request for System Access Service (which may differ from this tariff). Either the Customer or the AESO may initiate an adjustment of the Customer Contribution at any time prior to the expiration of the twenty year refund period as set out in Article 9.10. The circumstances giving rise to contribution adjustments include, but are not limited to, those in which:

(a) a Customer materially increases its Contract Capacity or contract term prior to the expiration of its original DTS System Access Service Agreement and does not necessitate the construction of new transmission facilities;
(b) a Customer materially decreases its Contract Capacity or contract term prior to the expiration of its original DTS System Access Service Agreement;
(c) the actual Contract Capacities and/or incremental revenues turn out to be materially different, on a sustained basis, than originally projected;
(d) a facility that had been classified as system-related under Article 9.3(c) is reclassified as Customer-related due to load growth or the addition of a new POC;
(e) a material error is detected in the original calculation;
(f) there is a material difference between the estimated costs of the project and the actual costs of the project;
(g) the AESO subsequently deems that all or part of a Customer’s Facilities have subsequently become system-related; or
(h) the period of advancement as set out in Article 9.3(c) is materially reduced.

6.5.2 Prepaid Operations and Maintenance

The application of a 12% prepaid Operations and Maintenance (O&M) charge on costs of AESO Standard Facilities and facilities in excess of standard was approved in Decision 2005-096. The AESO submits the charge on facilities in excess of standard should be maintained, but proposes the 12% charge on AESO Standard Facilities be removed.
The Board cited two primary considerations in determining that the O&M charge could be applied to both standard facilities and facilities in excess of standard for DTS customers. On pages 66 and 67 of Decision 2005-096 the EUB highlighted the following considerations:

"...the Board considers that the prepaid O&M charge may be beneficial from the standpoint of economic efficiency and from the standpoint of the desire to send appropriate economic siting and facility development signals through the contribution policy." (page 68)

"The Board is particularly concerned that, in applying the proposed DTS customer pre-paid O&M charge only to the deemed “optional facility costs” of a new interconnection, the AESO appears to be implicitly assuming that the combined amount of the pre-paid O&M costs associated with the “non-optional” local interconnection facilities and the cost of the non-optional facilities themselves will fall below the level permitted under the maximum investment allowance. However, the Board considers that this should not be presumed, particularly in light of the adjustments to the maximum investment function ordered by the Board in Section 6.1.4 above.” (page 68-69)

The Board noted above that it was inappropriate for the AESO to presume that the combination of standard facility costs and the O&M charge would be covered by the investment level. The AESO acknowledges the Board’s position but suggests that such a principle only applies if the customer contribution policy has a set investment level. If the investment level was set at a specific value and was not based upon the number of projects that are not required to pay a contribution – which is not how the current and proposed investment policies are structured (i.e. 80% of projects are not to pay a contribution per Board Directive 13A in Decision 2005-056, and further described below) – the number of customers that would be required to pay a contribution would increase. But as noted the investment level is required to meet the criterion that 80% of projects do not pay a contribution. If the O&M charge was to continue to be applied to standard facilities, the cost function would increase but so would the investment level function so as to maintain the target of 80% of projects not having to pay a customer contribution. As such, the AESO is of the view that the benefit to economic siting and facility development originally intended by the Board by including the O&M charge is very limited.

The AESO also suggests that the O&M charge on standard facilities does not achieve the economic efficiencies intended by the Board. The O&M charge would create additional accounting treatment concerns and infrastructure requirements for Transmission Facility Owners (TFOs). Additional time and resources will be required to modify current processes and accounting infrastructure to effectively separate and track capital costs of the transmission facilities as compared to traditional expense treatment for O&M. New procedures and processes would also be required to ensure O&M costs are being recovered correctly and are not recovered in other components of the TFOs revenue requirement.
The AESO is concerned it will also reduce the efficiencies and harmonization efforts undertaken by the AESO and the Distribution Companies (DISCOs). The DISCOs include an O&M charge only on optional facilities; the application of the O&M charge on standard facilities by the AESO creates misalignment between the AESO and the DISCO Tariffs.

Other considerations supporting the removal of the O&M charge include:

- Avoids intergenerational inequity, as customers prior to 2006 were not required to pay for such a charge yet all transmission customers pay the same DTS rate;
- Prevents additional Tariff complexity, i.e. additional articles required to clarify the application of the charge in circumstances where the customer’s contract terms may be less than 20 years; and
- AESO stakeholder consultation suggests that stakeholders are opposed to the charge on standard facilities and have asked the AESO to remove the provision citing similar reasons as outlined above.

Based upon the above rationale, the AESO proposes the O&M charge only apply to facilities in excess of standard. The proposed changes to Article 9.4 along with the currently approved Article 9.4 are provided below.

**Existing Article 9.4:**

9.4 Prepaid Operations and Maintenance
For customers taking service under Rate DTS, a prepaid operations and maintenance charge of 12% will be added separately to the costs of:

(a) AESO Standard Facilities required to provide service to the customer where these costs are eligible for Local Investment determined in accordance with Article 9.6; and

(b) Facilities which exceed the AESO Standard Facilities required to provide service to the Customer.

**Proposed Article 9.4:**

9.4 Prepaid Operations and Maintenance
For customers taking service under Rate DTS, a prepaid operations and maintenance charge of 12% will be added to the costs of facilities which exceed the AESO Standard Facilities required to provide service to the Customer.

6.5.3 Determination of Customer Contribution

The AESO proposes to amend the Customer Contribution Policy. The proposal is primarily the result of responding to the EUB’s directions in Decision 2005-096.
Reference: Section 6.1.1 – Prepaid Operations and Maintenance, pp. 13-15 of 47

Request:

(a) Please confirm that the purpose of the prepaid O&M charge is to cover incremental O&M costs expected to be incurred by the TFO as a result of the interconnection of the new customer. If this cannot be confirmed, please explain.

(b) Please explain the rationale for using the optional portion of a new facility cost for the purposes of the determination of the prepaid O&M amount to be recovered from an interconnecting customer. In particular, please explain why the pre-paid O&M charge should not be based on the full amount of the incremental TFO O&M cost expected to arise from the new customer’s interconnection.

(c) Please confirm that prepaid O&M charge is only intended to cover off incremental TFO O&M costs arising from a new interconnection and not incremental TFO labour or other costs that may be capitalized as part of the TFO’s capital maintenance expenditures. If this cannot be confirmed, please explain.

(d) If your response to c) confirms that the prepaid O&M charge is intended to only target incremental O&M costs and not incremental labour and other costs that may be capitalized, please explain why it would not be appropriate to also consider capitalized portion of incremental costs as part of the determination of a prepaid O&M charge.

(e) In light of your answer to c) above, please provide the AESO’s estimate of the average incremental annual O&M expense that arises from a dollar of investment in a new interconnection facility.

Response:

(a) The AESO generally considers including an O&M amount in customer related costs reflects the full costs the TFO is expected to incur as a result of interconnecting a new customer.

(b) The AESO proposes that O&M costs associated with standard service obtained through Standard Facilities are properly recovered through average rates, and therefore including an O&M amount in the customer related costs for standard facilities (used to determine the contribution) is not necessary. The AESO understands TFOs include in their revenue requirements total forecast O&M expenses that cover all expected O&M regardless of whether contributions were made for new services or not, and therefore all O&M costs are already included in the AESO’s average rates. The AESO notes it has been historical practice for O&M expenses, including any capital expenditures for standard system access service provided by the AESO and regulated TFO, to be recovered through average rates. The AESO also understands the distribution
companies’ (Discos’) contribution policies include prepaid O&M only for facilities in excess of Standard (i.e. optional).

As such, the AESO proposes to include an O&M component in facilities costs in excess of Standard (i.e. optional) but not in Standard Facilities costs primarily for the following reasons:

• The O&M adder to the contributions for facilities in excess of Standard ensures customers selecting optional facilities receive an appropriate price signal that the postage stamp rate that they will pay going forward reflects only costs that are associated with the standard level of service provided by the AESO.
• Applying the O&M adder to the cost of standard facilities would create intergenerational inequity as customers prior to the 2005/2006 tariff were not subject to this incremental charge.
• The proposed tariff maintains harmonization between the AESO and the DISCOs, since as noted above it is the AESO’s understanding that the DISCOs currently apply an incremental O&M charge only to optional facilities.

(c) Confirmed. Also please see the response to (b) above.

(d-e) The AESO continues to rely on the definition of O&M applied in the 2005/2006 Application. The AESO interpreted the O&M charge to represent only O&M expenses required to maintain system access service. The basis for the 12% charge (approved in Decision 2005-096) was discussed in the AESO’s 2005/2006 GTA Information Request response ALPAC.AEOS-003 (a-h) and is attached to this response as Attachment BR.AEOS-012.
Terms and Conditions of Service

Prepaid Operations and Maintenance (O&M), Section 6 - Terms and Conditions of Service, p. 20 of 42 and Section 7 – Tariff, s. 9.13 Prepaid Operations and Maintenance, p. 60 of 84.

Preamble: Alpaca seeks clarification on the derivation of the Prepaid Operations and Maintenance rate.

For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.

Request:

(a) Please provide all documentation to support the statement that the proposed 12% O&M charge "is based on the minimum such charge used by other utilities in Alberta."

(b) Please provide documentation from each Alberta TFO’s Terms and Conditions outlining their respective levels of Prepaid O&M.

(c) Please provide all preliminary review documentation related to the AESO’s statement: "preliminary review [of the 12% Prepaid O&M rate] by the AESO indicates this is the minimum reasonable level".

(d) Please confirm that the implementation of the 12% Prepaid O&M proposal will increase the connection costs paid by generators by 12%, given that generators pay all interconnection costs. If the AESO cannot confirm, please provide full details.

(e) The application states (s. 6, p. 20 of 42): “Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system.” Please confirm that this provision of the Transmission Regulation is consistent with AESO policy that has been in place since January 1, 1996. If the AESO cannot confirm, please provide full details. Please also discuss the rationale for implementing the 12% Prepaid O&M proposal at this time.

(f) Please confirm that using a taxable TFO Discount Rate of 9.27%, the schedule of payments outlined under Schedule 2 in each of Riders A2, A3 and A4 (s. 7, p. 16 to 29 of 84) and the capital charges as outlined in each of Riders A2, A3 and A4 the Present Value (PV) of the Other Expenses Charges for each Rider and the % of PV Expenses are as follows:
% PV Expenses = PV(9.27%) Other Expenses Charge / Capital Charge

<table>
<thead>
<tr>
<th>Rider</th>
<th>PV Other Expenses Charge</th>
<th>Capital Charge</th>
<th>% of PV Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>$33,829</td>
<td>$2,375,000</td>
<td>1.4%</td>
</tr>
<tr>
<td>A3</td>
<td>$35,553</td>
<td>$2,907,800</td>
<td>1.2%</td>
</tr>
<tr>
<td>A4</td>
<td>$68,322</td>
<td>$5,968,800</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

If the AESO cannot confirm, please provide full details. The calculations are provide in the following embedded spreadsheet:

(g) Please reconcile the % PV Expenses derived above, which can be characterized as the “pre-paid” cost for each ISD holder to operate and maintain the assets the ISD holder would have had to install to create a physical bypass,¹ with the proposed 12% Prepaid O&M charge.

(h) Please discuss the equity between customers when comparing the charges outlined in f) above for ISD customers and the proposed 12% Prepaid O&M charge. Please also discuss the comparability of the charges.

¹ Decision 2000-70, p. 3: “In its IR responses to the Board, EAL advised it had contracted with ATCO Electric to prepare a detailed year by year estimate of the operating and capital improvements, which resulted in the forecast for the Other Expenses Charge.”

Decision 2002-60, p. 5: “The Other Expenses Charge simulates expenses for operating and maintenance, capital improvements, and property tax that Shell Canada would incur with the Duplicate Facilities alternative. The TA believed that the Other Expense Charges were commercially reasonable for Duplicate Facilities.”

Decision 2002-19, p. 5: “In the Application EAL proposed an Other Expenses Charge to reflect other expenses that Imperial Oil would incur under the Duplicate Facilities alternative. These expenses consisted of operating and maintenance, capital improvements, and property tax.”

Response: 

(a) ATCO Electric’s current Price Schedule D32 (effective January 1, 2003) includes a 3.76% per year incremental operations and maintenance charge for generating customers. FortisAlberta’s current terms and conditions of distribution tariff services (effective January 1, 2005) charges 20% prepaid operations and maintenance for “optional facilities” and for distribution connected generation customers. Vertically-integrated utilities in Alberta previously assessed a 12% prepaid operations and maintenance charge.

(b) To the AESO’s knowledge, no Alberta TFO’s terms and conditions provide for a prepaid operations and maintenance (or equivalent) charge.

(c) The AESO did a cursory assessment of each TFO’s annual operating expense as a percentage of it gross property, plant, and equipment, based on
the TFO’s most recent approved tariff application. The results were as follows:

<table>
<thead>
<tr>
<th>Transmission Facility Owner</th>
<th>Annual Operating Expense $ 000 000</th>
<th>Gross Plant, Property, and Equipment $ 000 000</th>
<th>Ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>AltaLink</td>
<td>$ 56.1</td>
<td>$1,763.9</td>
<td>3.2%</td>
</tr>
<tr>
<td>ATCO Electric</td>
<td>43.1</td>
<td>1,193.0</td>
<td>3.6%</td>
</tr>
<tr>
<td>EPCOR Transmission</td>
<td>10.8</td>
<td>289.4</td>
<td>3.7%</td>
</tr>
<tr>
<td>ENMAX Power</td>
<td>17.3</td>
<td>209.8</td>
<td>8.2%</td>
</tr>
<tr>
<td>Lethbridge</td>
<td>2.6</td>
<td>24.0</td>
<td>11.0%</td>
</tr>
<tr>
<td>Red Deer</td>
<td>0.9</td>
<td>11.8</td>
<td>7.3%</td>
</tr>
<tr>
<td>TransAlta Utilities</td>
<td>1.2</td>
<td>26.5</td>
<td>4.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 131.9</strong></td>
<td><strong>$3,518.5</strong></td>
<td><strong>3.7%</strong></td>
</tr>
</tbody>
</table>

This range of operating expense ratio would all result in materially greater than a 12% prepaid operation and maintenance charge over a 20 year contract term. Even with appropriate additional adjustments, such as estimating the replacement cost new for the gross property amount and utilizing annual operating expense and gross property relating to customer-related facilities only, the ratios are expected to still support a prepaid O&M charge greater than 12%.

(d) Confirmed. Please refer to Information Response BR.AESO-041 (a) for an example calculation.

(e) Confirmed. The Transmission Regulation establishes in legislation the prior practice of the AESO and its predecessor organizations. With the formalization of this practice, with other changes to the AESO’s contribution policy, and with the overall review of the AESO’s terms and conditions completed as part of its 2005-2006 GTA, this Application seemed an appropriate time to introduce the prepaid operation and maintenance charge.

(f) The AESO confirms the amounts presented in part (f) of the request. The AESO notes that the “PV Other Expenses Charge” is a present value of 40 monthly charges. The present value of 40 annual amounts is as follows:

<table>
<thead>
<tr>
<th>Rider</th>
<th>PV Annual Other Expenses Charge</th>
<th>Capital Charge</th>
<th>% of PV Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>$405,950</td>
<td>$2,375,000</td>
<td>17.1%</td>
</tr>
<tr>
<td>A3</td>
<td>$426,683</td>
<td>$2,907,800</td>
<td>14.7%</td>
</tr>
<tr>
<td>A4</td>
<td>$819,859</td>
<td>$5,968,800</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

(g) The “% of PV Expenses” presented in part (f) above confirm that 12% is a reasonable minimum level at which to establish a prepaid operations and maintenance charge, until a more detailed assessment can be completed.
(h) The charges discussed in part (f) above were based on detailed estimates for specific facilities, while the proposed 12% prepaid operations and maintenance charge is a general average to be applied to a variety of projects. As such the numbers are reasonably comparable, and support the use of a 12% charge as a minimum value until a more detailed assessment can be completed. The three DAT customers to which Riders A2, A3, and A4 apply would be treated equitably if other customers were charged a 12% or comparable prepaid operations and maintenance charge for optional facilities.
Preamble: At p. 14 of Section 6, the Application states:

“The AESO also suggests that the O&M charge on standard facilities does not achieve the economic efficiencies intended by the Board. The O&M charge would create additional accounting treatment concerns and infrastructure requirements for Transmission Facility Owners (TFOs). Additional time and resources will be required to modify current processes and accounting infrastructure to effectively separate and track capital costs of the transmission facilities as compared to traditional expense treatment for O&M. New procedures and processes would also be required to ensure O&M costs are being recovered correctly and are not recovered in other components of the TFOs revenue requirement.”

Reference: Section 6.1.1 – Prepaid Operations and Maintenance, pp. 13-15 of 47

Request:

(a) Please explain what the AESO understands the “economic efficiencies intended by the Board” to be as referenced in the above noted passage.

(b) As compared to the procedures adopted by the TFO’s in response to the prepaid O&M provisions approved in Decision 2005-096, please explain what additional accounting treatment concerns and infrastructure requirements that AESO considers the TFO’s would require.

(c) Please provide an estimate of the incremental TFO costs the AESO considers would stem from TFO activities referenced in part b) above. Please provide all assumptions used in deriving this estimate.

(d) Please explain why the AESO considers that the TFO’s would need to modify processes and accounting infrastructure to separately track capital costs in order to implement the prepaid O&M recovery mechanism approved by the Board in Decision 2006-096.

Response:

(a) The AESO considers there are two aspects related to “economic efficiency”, the first of which it believes may have been intended by the EUB.

The first is the economic signal provided to the customer in the form of a contribution payment where costs exceed available investment. As noted in Section 6.5.2, page 14 of the Application, the AESO suggests that such a signal only works if the customer contribution policy has a set investment level. Since, however, both the current (including O&M) and proposed (excluding O&M) investment policies are set based on the principle that 80% of projects are targeted not to pay a contribution, while 20% are to
pay a contribution, the level is not fixed but moves in order to achieve the target. In other words, with the O&M charge included in the cost of Standard Facilities, the cost function would increase but so would the investment level function, in order to maintain the target of 80%. On that basis, it seems to the AESO that the intended signal of including O&M is largely lost.

The second aspect is in relation to the AESO’s interpretation that the prepaid O&M component approved in Decision 2005-096 was intended by the EUB to be an actual pre-payment of O&M costs. This interpretation could, as the AESO understands it, result in an additional administrative exercise which it views as a potential inefficiency. Based on the interpretation that prepaid O&M forming part of contributions was intended to be actual pre-payment of O&M costs, it was assumed the TFOs should account for the O&M portion of the contribution separately (i.e. not to offset ratebase but apply it against actual O&M expenses over some period of time), which would require a new administrative exercise. To further ensure consistency in the overall tariff treatment, the AESO’s DTS rates would have to be adjusted to recover only the net O&M; that is, the total O&M expenses of the TFOs, less the amount forecast to be recovered through contributions.

(b) The AESO is of the understanding the TFOs may not have modified their processes to adapt the outcomes of Decision 2005-096, as described in (a) above. Therefore, if the O&M component remains included in the costs in the 2007 tariff, and if in fact the AESO’s interpretation is correct that the O&M component is intended to offset O&M expenses and not ratebase, then the AESO expects the TFOs would set up processes and procedures to account for the prepaid O&M as an expense rather than simply applying total customer contributions as offsets to ratebase.

(c) The AESO does not have this information.

(d) Please see the response to (a) and (b) above. As stated, the AESO had previously assumed that the approved prepaid O&M was exactly that: prepayment of O&M expenses. However, upon further consideration the AESO believes the entire contribution determined on that basis could be treated as capital (as it understands has been the case historically in relation to the O&M component in contributions for optional facilities), since it is paid in one lump sum, and therefore has the actual effect of lowering the amount the TFO needs to invest in the project at that time (i.e. provides no-cost capital). Going forward, the O&M expenses would continue to be included in the TFO revenue requirements and recovered in total by the AESO’s tariff.

The AESO believes either approach could be reasonable, provided it complies with GAAP. The primary concern to the AESO is that the tariff and the signals provided by it to customers are fair and appropriate. This will be the case under either method as long as there is consistency between the assumptions behind the AESO tariff and the revenue requirements and accounting treatments of the TFOs.
The AESO submits that whatever the standard facilities are in any particular case (i.e. the most economic and technically viable solution), the project costs used in the determination of the Local Investment (as used in Article 9 of the Terms and Conditions) should be the transmission facilities that form part of the Standard Facilities (where the Standard Facilities may include both transmission and distribution facilities), regardless of whether the customer opts for a different (and typically higher cost) transmission alternative. This affords the same maximum available investment to the customer regardless of which interconnection facilities the customer ultimately opts for. It retains the 'right' economic signal to the customer; i.e. one that encourages the most efficient manner in which to expand the transmission system. If the customer opts for something else, then he will pay the difference.

It also ensures both DISCO and transmission rate payers are protected from paying for facilities in excess of standard transmission facilities through average rates. Regardless of which type of facilities the customer chooses, the remaining transmission (i.e. system access service) ratepayers will pay equivalent rates no matter what individual customers may do in order to meet their specific (i.e. non-standard needs).

During the course of the proceeding, no intervenors seemed to take issue with this proposal. The AESO submits the revised wording for Article 9.1 as provided in the Supplemental filing should be approved.

### 4.3 Prepaid O&M Charge on Standard Facilities

As part of its Application (Exhibit 007, Section 6, pp. 13-15), the AESO proposed to remove the 12% Operations and Maintenance (O&M) charge imposed on AESO deemed Standard Facilities, and to maintain the 12% O&M charge on costs of facilities in excess of Standard Facilities. The AESO suggested that maintaining the 12% O&M charge on Standard Facilities would increase the number of customers required to pay a customer contribution and would create additional accounting treatment concerns and resource requirements for TFOs. The AESO suggested other considerations supporting the removal of the O&M charge, including:

- Avoiding intergenerational inequity, where customers prior to 2006 were not required to prepay O&M;
- Preventing additional Tariff complexity; and
- Stakeholder support of the removal of the charge.

In response to Board IRs (Exhibit 080) the AESO provided the following additional supporting rationale:
• The O&M adder to the contributions for facilities in excess of Standard ensures customers selecting optional facilities receive an appropriate price signal that the postage stamp rate that they will pay going forward reflects only costs that are associated with the standard level of service provided by the AESO.

• The proposed tariff maintains harmonization between the AESO and the DISCOs, since as noted above it is the AESOs understanding that the DISCOs currently apply an incremental O&M charge only to optional facilities. (BR.AESO–12)

And:

The AESO proposes that O&M costs associated with standard service obtained through Standard Facilities are properly recovered through average rates, and therefore including an O&M amount in the customer related costs for standard facilities (used to determine the contribution) is not necessary (BR.AESO–13)

As explained in BR.AESO–13, the AESO also took into consideration in its proposal to remove the prepaid O&M component that it understood initially that the accounting treatment of “prepaid O&M” was expected to offset actual O&M. This would add some complexity for the TFOs. However, the AESO now understands this may not have been the intent and it could be treated like all other customer contributions (i.e. offset ratebase), which removes this concern.

On balance, however, for the reasons above, the AESO submits that the more optimal approach is to remove the prepaid O&M component from the determination of customer contributions for Standard Facilities.

4.4 Staged Contracts and Payments of Related Contributions

The AESO generally encounters two types of system access requests. The first type is in the form of single contract capacity application with no incremental contracted capacity increases. The preparation of the interconnection alternatives primarily focuses on the single contract capacity request; any future contract capacity increase requests are treated as a separate project. Once the Permit and License (P&L) for the recommended interconnection solution has been approved by the Board, the customer, in compliance with Article 9 of the AESO’s Terms and Conditions, must pay their customer contribution prior to construction.

The other type of system access request comes in the form of a “staged” contract, where the customer contracts for several future contract capacity increases at the start of the project. The preparation of the interconnection alternatives in such a case necessarily focuses on alternatives that can meet the both the present and proposed future contracted capacities.

The AESO noted in EPCOR.AESO-001 (a-c) (Exhibit 110) that it is often more economic to construct all the interconnection facilities required to accommodate all the contracted
Q And I noted in 1.1, paragraph 1, the proposals are for a large new customers. Would parties such as the PPGA and the companies it represents fall in that category?

I believe it would as it states throughout the documents, specifically in Section 2 where it talks about the considerations involved with interconnecting a customer, whether it be on transmission or distribution. So yes, I would say yes.

The AESO notes that it undertakes different types of consultation that engage customers and encourages communication and participation. The AESO engages the necessary parties on a case by case basis, and anticipates participation by interested parties at each stage in the process.

The AESO also notes that while the intention of a stakeholder consultation process is consensus, that may not always be the outcome, and the AESO attempts to pursue the most reasonable and fair course of action taking into account all technical and regulatory principles as part of its decision-making process.

The AESO notes TransCanada’s suggestions regarding consultation and specifically the recommendation “to establish a Rates Committee to review tariff issues (rate design, cost of service, terms and conditions) with the mandate to meet frequently, to provide comments to the AESO, to provide a forum for issues to be reviewed and discussed early in the process, to work the process and to provide feedback to the stakeholders.” (TCE Argument, page 1)

While the AESO has noted that its tariff consultation process could be improved (4T: 0875, lines 15-23), it does not endorse the “committee” concept put forward by TransCanada. On the one hand TransCanada suggests “sorting out issues on a month-to-month basis” (TCE Argument, page 1), but at the same time TransCanada notes that the experts that could be involved in such a process are expensive.

In the AESO’s view, rate design is a matter that should be reviewed only at certain (ideally relatively infrequent) intervals, and is not a task that lends itself to continuous review. This would be at odds with the objective of certainty and stability. It certainly does not seem to the AESO that TransCanada’s suggested committee approach would enhance efficiency or reduce costs overall.

The AESO agrees with many participants that there is value in consultation which can contribute to a more efficient regulatory review process. Indeed, there are many examples in the 2007 Application which demonstrate that stakeholder feedback was in fact incorporated in the AESO’s proposals, resulting in elements of the proposed tariff that were not contentious and were therefore not further examined during the hearing process. For example, stakeholders encouraged the AESO to revert to the traditional approach of determining investment in customer interconnections without a prepaid operations and maintenance component, as discussed in Section 6.5.2 of the Application (Exhibit 007, Section 6, pages 13-15). The AESO accordingly applied to remove the prepaid operations
and maintenance charge which exists in the AESO’s current tariff, and no participant in this proceeding has opposed its removal.

The AESO provided feedback during the consultation process in a transparent way to the extent possible (Exhibit 004, AESO Application, Section 3, page 2, and as noted throughout Sections 4 and 6 of the Application), but the reality is that there comes a time when the application needs to be filed. While this may mean that opportunities for further feedback no longer exist, and as a result that some parties may not feel they have had the “last word”, the EUB will appreciate this reality which the AESO faces in matters concerning its tariff applications.

The AESO will continue to conduct consultation in advance of filing its tariff applications, in a manner that is designed to contribute to streamlining the review process, wherever reasonably possible. Based on feedback and information gleaned from the 2007 tariff consultation and other consultations conducted by the AESO, the AESO will review and modify the consultation approach in relation to the next occasion of a tariff review. At the same time, lack of consensus or settlement on some matters prior to the regulatory review process should not be considered a failure of the consultation process. This is primarily due to the nature of Phase II matters, where parties often have conflicting interests not just with the AESO but also amongst themselves, as well as the fact that stakeholders engage or commit to the consultation process to varying degrees, given the availability of the EUB regulatory review process.
Reference: AESO 2006 GTA (Application 1363012)

Title: Origins of Operations and Maintenance Charge

Preamble: The AESO’s original proposal for a prepaid operations and maintenance charge was provided in the AESO’s 2006 tariff application (Alberta Energy and Utilities Board (EUB or Board) Application # 1363012).

Request:

(a) Please provide application materials and other filed evidence from the AESO’s 2006 GTA proceeding (EUB Application 1363012) which relates to the prepaid operations and maintenance (O&M) charge proposed by the AESO in Application 1363012.

(b) In light of the fact that the prepaid O&M charge proposal described in the AESO’s 2006 GTA was modified by the EUB in Decision 2005-096, please describe how the AESO believes it met the onus it faced in the 2007 GTA proceeding to persuade the EUB that the Board’s findings in Decision 2005-096 in respect of the O&M charge were erroneous.

Response:

(a) Attachment AUC.AESO-001 (a)-A includes all application materials and other evidence filed by the AESO during its 2006 GTA proceeding which relates to the prepaid O&M charge proposed by the AESO in its application:

(i) pages 20-21 of section 6 of the AESO’s 2006 General Tariff Application dated January 31, 2005;

(ii) responses by the AESO to the following information requests dated February 25, 2005:
- ALPAC.AESO-003 (a-h),
- BR.AESO-041 (a-b),
- ENCANA.AESO-068 (a-c),
- EPCOR.AESO-008 (a-b),
- FIRM.AESO-258, and
- TCE.AESO-244 (a-c);

(iii) oral evidence of the AESO in transcript pages 282-284 of the hearing on April 11, 2005;

(iv) section 5.1.6.5 (pages 51-53) of the AESO’s Argument dated May 16, 2005; and

(v) section 5.1.6.5 (page 37) of the AESO’s Reply Argument dated May 30, 2005.
For completeness, Attachment AUC.AESO-001 (a)-B includes evidence filed by other parties during the 2006 GTA proceeding which also relates to the prepaid O&M charge:

(vi) pages 1, 3-5, and 18 of Alberta Pacific Forest Industries’ Argument dated May 16, 2005;

(vii) section 5.1.6.5 (pages 101-103) of the FIRM Customers’ Argument dated May 16, 2005;

(viii) section 5.1.6.5 (page 46) of TransCanada Energy’s Argument dated May 16, 2005;

(ix) section 5.1.6.5 (page 4) of Alberta Pacific Forest Industries’ Reply Argument dated May 30, 2005; and

(x) section 5.1.6.5 (pages 21-22) of the FIRM Customers’ Reply Argument dated May 30, 2005.

(b) As explained in section 3 of the AESO’s 2007 General Tariff Application, the AESO conducted extensive stakeholder consultation in developing its 2007 tariff proposals. In particular, the development of the terms and conditions proposals began in August 2005 and continued until October 2006, and included the preparation of the 2006 Customer Contribution Study. Throughout this process the AESO assessed issues, explored alternatives, and developed underlying rationale for various aspects of the terms and conditions, including the contribution policy.

The O&M charge approved in Decision 2005-096 was included in the assessment and exploration of issues during development of the AESO’s 2007 tariff application. As discussed in section 6.5.2 (pages 13-15 of section 6) of the 2007 tariff application (provided on January 8, 2009, with the AESO’s evidence in this proceeding), the AESO examined the relevant considerations mentioned in Decision 2005-096 on the AESO’s 2006 GTA and concluded that, in practice, the benefits expected from the O&M charge would be very limited.

The AESO’s exploration of the issue also revealed that the O&M charge would likely result in the need for new procedures and processes by TFOs, reductions to harmonization efforts between the AESO and DFOs, intergenerational equity concerns, and additional tariff complexity. These various issues and impacts concerning the O&M charge approved in Decision 2005-096, which had not been debated during the AESO’s 2006 GTA proceeding, were summarized by the AESO in its application.

The AESO also discussed the issue with stakeholders in consultation on the development of its 2007 terms and conditions. Stakeholders generally concurred with the AESO’s findings on the O&M charge. No party suggested the issue did not warrant review in the AESO’s 2007 GTA, in light of the foregoing changed circumstances and conclusions.

The AESO concluded that the limited benefits expected from the O&M charge, the additional disadvantages revealed during the development of its 2007 tariff application, and the general support of other parties were persuasive and met the onus faced by the AESO in suggesting the findings in Decision 2006-096 should be reexamined.
Administrative Cost of Contribution Refunds — Decision 2001-6 on the EAL 2001 GRA Customer Contribution Policy included the following direction:

11. Further, the Board directs EAL, in the next GTA, to address any change in the recommended project cost threshold for refunds beyond the 10 year period or any administrative cost levy to compensate for the extra administrative cost involved. The Board accepts TCE’s argument that customers would be willing to pay for any incremental administrative costs. Accordingly, at the time this issue is addressed, the Board will consider whether the effective date for the requirement for customers to pay the additional administrative costs should be the effective date of the new contribution policy.

The AESO has determined that the administrative cost to refund load customer contributions are relatively small, particularly in light of the need for a similar process described in the next section of this Application in respect of generator system contributions as required by the Transmission Regulation. Consequently, the AESO is prepared to track and refund load customer contributions over a twenty year period, at no direct cost to customers. The associated terms and conditions of service remain unchanged. However, given that the above noted administrative cost is relatively small, the AESO proposes to eliminate the $50,000 refund threshold in the AESO’s current terms and conditions, reproduced below:

9.8(c) Commencing in year 11, any project whose remaining adjustment is less than $50,000 shall be deemed to have an adjustment balance of zero, and no further refunds shall be due.

Prepaid Operations and Maintenance — Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers.

Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system. However, interconnections incur on-going operations and maintenance costs beyond their initial capital costs. The AESO therefore proposes to include a prepaid operations and maintenance charge to ensure load customers do not pay these costs related to generator interconnections.

Facilities in excess of AESO standard facilities will also have a prepaid operations and maintenance charge applied. By definition, service can be provided through AESO standard facilities, and all customers share in the on-going operations and maintenance costs associated with such standard facilities the averaging of costs in the AESO’s rates. However, it is inappropriate for all customer to share in on-going costs when an individual customer elects facilities in excess of the standard.
For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.

**Non-Standard Configurations** — Article 9.14(c) of the proposed terms and conditions of service replaces previous Article 22.4 and continues to recognize the long-standing practice wherein facilities requested by the customer that exceed the AESO standard facilities required to provide service to the Customer are at the customer’s cost. Costs arising from customer-requested facilities that exceed the AESO standard facilities required to provide service are also not eligible for the waivers for multiple-user PODs discussed earlier.

### 6.2 System Contributions for Generators

Part 4 of the Transmission Regulation requires the AESO to include in its tariff provisions relating to the local interconnection costs of generating units and the generating unit owner’s contribution:

**Local interconnection costs**

16(1) The ISO must include in the ISO tariff

(a) local interconnection costs, as defined by the ISO, payable by an owner of a generating unit for connecting to the transmission system;

(b) the terms and conditions of service and provisions for the recovery of local interconnection costs from owners of generating units.

(2) The ISO must make reasonable efforts to ensure that the interconnection of a generating unit to the transmission system is undertaken in a timely manner.

(3) The owner of a generating unit that interconnects with the transmission system, and who has paid local interconnection costs, may not prohibit interconnection or access to the interconnection facilities by other market participants.

(4) If another person makes use of the facilities for which a local interconnection cost has been paid,

(a) the cost of the use of those facilities by that other person or persons must be allocated to all users in accordance with the ISO tariff, and

(b) the original local interconnection cost, or a portion of it, must be refunded to the person who paid it in accordance with the ISO tariff.
Title: Terms and Conditions of Service

Reference: Prepaid Operations and Maintenance (O&M), Section 6 - Terms and Conditions of Service, p. 20 of 42 and Section 7 – Tariff, s. 9.13 Prepaid Operations and Maintenance, p. 60 of 84.

Preamble: Alpac seeks clarification on the derivation of the Prepaid Operations and Maintenance rate.

For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.

Request: (a) Please provide all documentation to support the statement that the proposed 12% O&M charge “is based on the minimum such charge used by other utilities in Alberta.”

(b) Please provide documentation from each Alberta TFO’s Terms and Conditions outlining their respective levels of Prepaid O&M.

(c) Please provide all preliminary review documentation related to the AESO’s statement: “preliminary review [of the 12% Prepaid O&M rate] by the AESO indicates this is the minimum reasonable level”.

(d) Please confirm that the implementation of the 12% Prepaid O&M proposal will increase the connection costs paid by generators by 12%, given that generators pay all interconnection costs. If the AESO cannot confirm, please provide full details.

(e) The application states (s. 6, p. 20 of 42): “Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system.” Please confirm that this provision of the Transmission Regulation is consistent with AESO policy that has been in place since January 1, 1996. If the AESO cannot confirm, please provide full details. Please also discuss the rationale for implementing the 12% Prepaid O&M proposal at this time.

(f) Please confirm that using a taxable TFO Discount Rate of 9.27%, the schedule of payments outlined under Schedule 2 in each of Riders A2, A3 and A4 (s. 7, p. 16 to 29 of 84) and the capital charges as outlined in each of Riders A2, A3 and A4 the Present Value (PV) of the Other Expenses Charges for each Rider and the % of PV Expenses are as follows:
% PV Expenses = PV(9.27%) Other Expenses Charge / Capital Charge

<table>
<thead>
<tr>
<th>Rider</th>
<th>PV Other Expenses Charge</th>
<th>Capital Charge</th>
<th>% of PV Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>$33,829</td>
<td>$2,375,000</td>
<td>1.4%</td>
</tr>
<tr>
<td>A3</td>
<td>$35,553</td>
<td>$2,907,800</td>
<td>1.2%</td>
</tr>
<tr>
<td>A4</td>
<td>$68,322</td>
<td>$5,968,800</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

If the AESO cannot confirm, please provide full details. The calculations are provided in the following embedded spreadsheet:

(g) Please reconcile the % PV Expenses derived above, which can be characterized as the “pre-paid” cost for each ISD holder to operate and maintain the assets the ISD holder would have had to install to create a physical bypass,\(^1\) with the proposed 12% Prepaid O&M charge.

(h) Please discuss the equity between customers when comparing the charges outlined in f) above for ISD customers and the proposed 12% Prepaid O&M charge. Please also discuss the comparability of the charges.

\(^1\) Decision 2000-70, p. 3: “In its IR responses to the Board, EAL advised it had contracted with ATCO Electric to prepare a detailed year by year estimate of the operating and capital improvements, which resulted in the forecast for the Other Expenses Charge.”

Decision 2002-60, p. 5: “The Other Expenses Charge simulates expenses for operating and maintenance, capital improvements, and property tax that Shell Canada would incur with the Duplicate Facilities alternative. The TA believed that the Other Expense Charges were commercially reasonable for Duplicate Facilities.”

Decision 2002-19, p. 5: “In the Application EAL proposed an Other Expenses Charge to reflect other expenses that Imperial Oil would incur under the Duplicate Facilities alternative. These expenses consisted of operating and maintenance, capital improvements, and property tax.”

Response:

(a) ATCO Electric’s current Price Schedule D32 (effective January 1, 2003) includes a 3.76% per year incremental operations and maintenance charge for generating customers. FortisAlberta’s current terms and conditions of distribution tariff services (effective January 1, 2005) charges 20% prepaid operations and maintenance for “optional facilities” and for distribution connected generation customers. Vertically-integrated utilities in Alberta previously assessed a 12% prepaid operations and maintenance charge.

(b) To the AESO’s knowledge, no Alberta TFO’s terms and conditions provide for a prepaid operations and maintenance (or equivalent) charge.

(c) The AESO did a cursory assessment of each TFO’s annual operating expense as a percentage of its gross property, plant, and equipment, based on
the TFO’s most recent approved tariff application. The results were as follows:

<table>
<thead>
<tr>
<th>Transmission Facility Owner</th>
<th>Annual Operating Expense $000 000</th>
<th>Gross Plant, Property, and Equipment $000 000</th>
<th>Ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>AltaLink</td>
<td>$ 56.1</td>
<td>$1,763.9</td>
<td>3.2%</td>
</tr>
<tr>
<td>ATCO Electric</td>
<td>43.1</td>
<td>1,193.0</td>
<td>3.6%</td>
</tr>
<tr>
<td>EPCOR Transmission</td>
<td>10.8</td>
<td>289.4</td>
<td>3.7%</td>
</tr>
<tr>
<td>ENMAX Power</td>
<td>17.3</td>
<td>209.8</td>
<td>8.2%</td>
</tr>
<tr>
<td>Lethbridge</td>
<td>2.6</td>
<td>24.0</td>
<td>11.0%</td>
</tr>
<tr>
<td>Red Deer</td>
<td>0.9</td>
<td>11.8</td>
<td>7.3%</td>
</tr>
<tr>
<td>TransAlta Utilities</td>
<td>1.2</td>
<td>26.5</td>
<td>4.5%</td>
</tr>
<tr>
<td>Total</td>
<td>$ 131.9</td>
<td>$3,518.5</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

This range of operating expense ratio would all result in materially greater than a 12% prepaid operation and maintenance charge over a 20 year contract term. Even with appropriate additional adjustments, such as estimating the replacement cost new for the gross property amount and utilizing annual operating expense and gross property relating to customer-related facilities only, the ratios are expected to still support a prepaid O&M charge greater than 12%.

(d) Confirmed. Please refer to Information Response BR.AESO-041 (a) for an example calculation.

(e) Confirmed. The Transmission Regulation establishes in legislation the prior practice of the AESO and its predecessor organizations. With the formalization of this practice, with other changes to the AESO’s contribution policy, and with the overall review of the AESO’s terms and conditions completed as part of its 2005-2006 GTA, this Application seemed an appropriate time to introduce the prepaid operation and maintenance charge.

(f) The AESO confirms the amounts presented in part (f) of the request. The AESO notes that the “PV Other Expenses Charge” is a present value of 40 monthly charges. The present value of 40 annual amounts is as follows:

<table>
<thead>
<tr>
<th>Rider</th>
<th>PV Annual Other Expenses Charge</th>
<th>Capital Charge</th>
<th>% of PV Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>$405,950</td>
<td>$2,375,000</td>
<td>17.1%</td>
</tr>
<tr>
<td>A3</td>
<td>$426,683</td>
<td>$2,907,800</td>
<td>14.7%</td>
</tr>
<tr>
<td>A4</td>
<td>$819,859</td>
<td>$5,968,800</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

(g) The “% of PV Expenses” presented in part (f) above confirm that 12% is a reasonable minimum level at which to establish a prepaid operations and maintenance charge, until a more detailed assessment can be completed.
(h) The charges discussed in part (f) above were based on detailed estimates for specific facilities, while the proposed 12% prepaid operations and maintenance charge is a general average to be applied to a variety of projects. As such the numbers are reasonably comparable, and support the use of a 12% charge as a minimum value until a more detailed assessment can be completed. The three DAT customers to which Riders A2, A3, and A4 apply would be treated equitably if other customers were charged a 12% or comparable prepaid operations and maintenance charge for optional facilities.
Reference: Prepaid O&M, Section 6, page 20

Request:

a) Please provide an example of how this formula would be applied to an STS customer and a DTS customer.

b) Please indicate when the AESO may plan on doing further research into this matter.

Response:

a) For an STS customer, the cost of facilities which exceed AESO standard facilities (as determined under Article 9.3(c)) would have an amount of 12% added in respect of prepaid operations and maintenance. As well, the customer contribution required for customer-related costs (as determined under Article 9.4(b)) would also have an amount of 12% added in respect of prepaid operations and maintenance. For example, consider as STS customer signing a 20-year STS contract for 20 MW, with project costs of $15,000,000 as follows:

1. Project costs: $15,000,000
2. Cost of AESO standard facilities: 13,000,000
3. Costs in excess of AESO standard facilities: $2,000,000
4. Prepaid operations and maintenance (12%): 240,000
5. System-related costs: 1,000,000
6. Customer-related costs: 12,000,000
7. Local investment ($0): 0
8. Customer contribution: 12,000,000
9. Prepaid operations and maintenance (12%): 1,440,000
10. Total customer cost: $15,680,000

For a DTS customer, the cost of facilities which exceed AESO standard facilities (as determined under Article 9.3(c)) would have an amount of 12% added in respect of prepaid operations and maintenance. For example, consider a DTS customer signing a 20-year DTS contract for 20 MW, with project costs of $15,000,000 as follows:

1. Project costs: $15,000,000
2. Cost of AESO standard facilities: 13,000,000
3. Costs in excess of AESO standard facilities: $2,000,000
4. Prepaid operations and maintenance (12%): 240,000
5. System-related costs: - $1,000,000
6. Customer-related costs: 12,000,000
7. Local investment ($27,000 × 20 MW × 20 yrs): - $10,800,000
8. Customer contribution: 1,200,000
9. Total customer cost: $3,440,000
b) The AESO expects to continue its examination of prepaid operations and maintenance after the record is complete for its 2006 GTA, including further stakeholder consultation in the fall of 2005 in preparation for the AESO’s 2007 GTA.
Reference: Application, Section 6.1 (Customer Contribution); p.20;

Preamble: The Application states:

Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers.

Request: (a) Please explain why the costs of O&M must be of a pre-paid nature. Please explain why customers cannot pay for such O&M charges on an annual basis.

(b) Please explain how the AESO will apply such monies to offset the annual TFO revenue requirement over the life of the asset.

(c) If the AESO intends to apply such funds as a one-time offset explain how this addresses inter-generational inequity.

Response: (a) The prepayment of O&M is consistent with the payment of customer and system contributions prior to construction of transmission facilities, in accordance with Article 9.2 of the proposed terms and conditions. In general, prepayment reduces the risk of under-recovery of costs in the event that customers could not fulfill ongoing financial obligations.

(b-c) Prepaid O&M will be paid to TFOs with other customer contributions and will be amortized over time to offset the annual TFOs' revenue requirements.
Preamble:
For Customers taking service under Rate STS, a prepaid operations and maintenance charge of 12% will be added to the Customer-related costs. For facilities which exceed the AESO Standard Facilities required to provide service to the Customer, a prepaid operations and maintenance charge of 12% will be added to the cost in excess of AESO Standard Facilities.

Requests:

a) Is it intended that the provisions of Article 9.13 apply only to facilities approved by the AEUB (either under section 34 of the Electric Utilities Act or section 14 of the Hydro and Electric Energy Act) after the proposed Terms and Conditions come into effect? Explain.

b) Is it intended that the prepaid operations and maintenance charge be a one-time charge or would the customer be required to pay ongoing charges? Explain.

Response:

a) The AESO intends to apply Article 9.13 in respect of facilities installed in relation to new interconnections where the customer has signed a SAS agreement on or after January 1, 2006.

b) The charge is for pre-paid O&M and will be levied once for the life of the interconnection facilities.
Reference: Application, Section 6, page 20

Preamble: Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers.

Request: (a) Based on historical operations and maintenance costs, please provide support for the proposed 12% prepaid O&M charge

Response: (a) Please refer to Information Response ALPAC.AESO-003 (c).
Reference: Application, section 6, page 20

Preamble: The Application states that "Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers."

Request: (a) Please provide the average maintenance and operation cost of substations for each transmission voltage. Also provide a similar cost breakdown for transmission lines by voltage level.

(b) Please provide the analytical support for the 12% charge.

(c) Please explain why the AESO has chosen to use one cost for all types of substation and transmission lines.

Response: (a) The AESO does not have the requested information at the requested level of detail. As explained on page 21 of section 6 of its 2006 Application, the AESO has not completed a detailed analysis of operation and maintenance costs and is instead proposing a minimum charge at this time.

(b) Please refer to Information Response ALPAC.AESO-003 (a) and (c).

(c) Please see part (a) above.
facility owners?

MR. MARTIN: Yes, I believe we could do that under the regulation or the legislation.

Q Could I have you turn up ALPAC-AESO-3(c), which is Exhibit 2-18.

MR. MARTIN: Yes, I have that.

Q In this response, you provide a table comparing the annual operating expenses with the gross plant for a number of TFOs. From this comparison, the AESO's inference is (quoted):

"This range of operating expense ratio would all result in materially greater than a 12% prepaid operation and maintenance charge over a 20 year contract term. Even with appropriate additional adjustments, such as estimating the replacement cost new for the gross property amount and utilizing annual operating expense and gross property relating to customer-related facilities only, the ratios are expected to still support a prepaid O&M charge greater than 12%.

Can you tell me why the
AESO is recommending 12 percent when its own analysis indicates the percentage should be higher?

MR. MARTIN: So we looked at the possibilities for prepaid O&M from different perspectives. The particular information provided relates to one of those perspectives, and the difficulty we ran into was that when you get into a detailed calculation, you end up having to make a certain number of assumptions, specifically around things like age of facilities and length of term and things like that.

When we made different assumptions, we came out with a wide range of possible levels of prepaid O&M, sometimes in excess of 20 percent, other times down in the lower teens.

I don't believe at any time we got down to 12 percent, but 12 percent has been used in the past, and it seemed like a reasonable place to start while we examined this issue in more detail and provide a well-grounded analysis for any revisions that we propose for the prepaid O&M level.
Q I mean, the response indicates a more detailed
assessment is being contemplated. That's in
ALPAC-3(g). Can you tell me when that is
expected to be completed?
A MR. MARTIN: We expect to file it at
the time of our next Phase II application.
Q And if I can just go back to the generator
contribution and also the customer
contribution, where if a second customer hooks
onto the system, then it's considered part of
the entire system, and there's a refund.
Is there any limitation
in terms of materiality of the size of load
that connects on before it's considered to be
system costs as opposed to customer?
A MR. MARTIN: We assume that it would
be a load appropriate to be connected to the
transmission system.
Q So if, for example, you had a remote area of
line and you have a customer whose best option
is to attach to the transmission line, but they
have a relatively small load as compared to the
original customer, would there be any type of
assessment done to determine whether that full
amount of the contribution should be refunded,
Article 9.8 of the proposed terms and conditions of service has been revised to state that if facilities are installed to serve a customer and later used to serve other customers, those facilities will be deemed to be system-related and any customer contribution paid by the original customer for those facilities will be refunded. These provisions address the requirements of the quoted clause [16(4)] of the Transmission Regulation.

In response to Direction 11 of Decision 2001-6, the AESO also examined the administrative costs of contribution refunds (Application, section 6, p. 20):

The AESO has determined that the administrative cost to refund load customer contributions are relatively small, particularly in light of the need for a similar process described in the next section of this Application in respect of generator system contributions as required by the Transmission Regulation. Consequently, the AESO is prepared to track and refund load customer contributions over a twenty year period, at no direct cost to customers.

For the reasons provided in the Application, the AESO submits that the provisions respecting contribution refunds should be approved as filed.

5.1.6.5 Prepaid O&M

In the 2006 Application the AESO proposed to introduce the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers (section 6, p. 20):

Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system. However, interconnections incur on-going operations and maintenance costs beyond their initial capital costs. The AESO therefore proposes to include a prepaid operations and maintenance charge to ensure load customers do not pay these costs related to generator interconnections.

Facilities in excess of AESO standard facilities will also have a prepaid operations and maintenance charge applied. By definition, service can be provided through AESO standard facilities, and all customers share in the on-going operations and maintenance costs associated with such standard facilities the averaging of costs in the AESO’s rates. However, it is inappropriate for all customer[s] to share in on-going costs when an individual customer elects facilities in excess of the standard.
In general, parties did not oppose the prepaid O&M charge, but questioned the 12% level at which it was proposed. The AESO provided an explanation in the Application (section 6, p. 21):

For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.

Additional details respecting the level of prepaid O&M were provided in Information Response ALPAC.AESO-003. Some parties suggested the charge should be higher than 12% (T0282-83):

Q Can you tell me why the AESO is recommending 12 percent when its own analysis indicates the percentage should be higher?

A MR. MARTIN: So we looked at the possibilities for prepaid O&M from different perspectives. The particular information provided relates to one of those perspectives, and the difficulty we ran into was that when you get into a detailed calculation, you end up having to make a certain number of assumptions, specifically around things like age of facilities and length of term and things like that.

When we made different assumptions, we came out with a wide range of possible levels of prepaid O&M, sometimes in excess of 20 percent, other times down in the lower teens.

I don't believe at any time we got down to 12 percent, but 12 percent has been used in the past, and it seemed like a reasonable place to start while we examined this issue in more detail and provide a well-grounded analysis for any revisions that we propose for the prepaid O&M level.

In Information Response ENCAINA.AESO-008 (a), the AESO explained why it was appropriate that the charge be of a prepaid nature:

The prepayment of O&M is consistent with the payment of customer and system contributions prior to construction of transmission facilities, in accordance with Article 9.2 of the proposed terms and conditions. In general, prepayment reduces the risk of under-recovery of costs in the event that customers could not fulfill ongoing financial obligations.
Based on the above, the AESO submits it is reasonable to introduce a prepaid O&M charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers, and that the prepaid O&M charge should be approved as filed.

5.1.6.6 Contract Term, Reductions, and Termination

The proposed 2006 terms and conditions continue the current terms and conditions requirement for a five-year notice for contract reductions and terminations. The reasons for the notice period were provided by Mr. Martin (T0105):

A  MR. MARTIN: The five-year notice period is part of our overall approach to transmission cost recovery, and it needs to be looked at in the examination, or needs to be looked at in the overall tariff, including the investment proposal and the charges under our DTS rate.

I think, though, that the need for long-term system planning is the primary driver for the five-year requirement or contract notice, but not the only one.

Q  Okay. So if I can just summarize what I think I heard you say, is that there's really three things that you anticipate that the 60-month notice period provides: The first and foremost is the need for system planning; secondly, some tie-back to your investment policy; and thirdly as part of your tariff design, it's part of your overall cost recovery mechanism?

A  MR. MARTIN: Yes.

In Information Response ENCANA.AESO-090 (a), the AESO explained the distinction between demand ratchet periods and contract notice periods:

The DTS ratchet is a short term cost recovery tool, which recovers costs from customers that use transmission facilities in excess of their contracted capacity. The five year notice period on the other hand allows the AESO to effectively plan the transmission system. To conduct effective system planning, the AESO requires a clear understanding of how the system is being used. The highest Metered Demand during the five year notice period provides a more accurate view of the customers use and impact on the system in that area.
submits a load first principle is appropriate to determine investment in DTS load at dual use sites. Therefore, cost estimates are only required for DTS service, whether at load-only or dual-use sites. The AESO submits there is no requirement for cost estimates for standard service for the STS service at dual use sites.

5.1.6.4 Contribution Refunds

FIRM proposed (FIRM Argument, p. 101) that “consistent with existing contribution refund policies, FIRM submits the $50,000 threshold for contribution refunds should also be maintained to mitigate administrative costs.” Given that the AESO has addressed in this Reply Argument the issues raised by FIRM and demonstrated that the proposed contribution policy should be approved as filed, FIRM’s argument for consistency no longer has merit. The AESO therefore submits that, as stated in the 2006 Application (section 6, p. 20), the $50,000 refund threshold is no longer required and its elimination should be approved as filed.

5.1.6.5 Prepaid O&M

Alpac opposed (Alpac Argument, p. 3) the proposed 12% prepaid O&M charge for generators and optional facilities, based on the premise it was not consistent with the Transmission Regulation and will result in discrimination between existing and new AESO customers. The AESO submits that local interconnections incur on-going operations and maintenance costs beyond their initial capital costs, and that a prepaid operations and maintenance charge ensure load customers do not pay these local interconnection costs consistent with section 16(1) of the Transmission Regulation.

Alpac also suggests (p. 5) that since generators have not been charged prepaid O&M since January 1, 1996, they cannot be charged prepaid O&M now as it will create an unlevel and unfair playing field. The AESO submits the customer contribution policy continues to evolve, as witnessed by the introduction of the DTS-STS ratio in Decision 2001-6 and the system contribution for generators in the Transmission Regulation. The review of historical policies and the development of new ones is part of the normal course of business. As stated in the 2006 Application (section 6, pp. 20-21), the prepaid O&M charge is a reasonable charge for generator local interconnections and the AESO submits it be approved as filed.

FIRM supported (FIRM Argument, p. 102) the introduction of the prepaid O&M charge but recommended the level be 15.2% rather than 12%. As explained in AESO Argument (p. 52), the 12% charge is appropriate and should be approved at this time.

5.1.6.6 Contract Term, Reductions, and Termination

Alpac opposed (Alpac Argument, p. 6) the AESO’s five year-notice provision for contract reductions or terminations for DTS customers, citing that the notice period was not needed for system planning purposes, DTS and STS customers were not being treated the same,
INTRODUCTION & SUMMARY

1 Alberta Pacific Forest Industries Inc. (Alpac) retained Stantec Consulting Ltd. to review a number of the AESO’s proposed tariff provisions that may have an impact on Alpac’s plans to move from distribution service to transmission service. Alpac’s concerns with respect to the AESO’s proposed five year notification provision was summarized during cross examination:

   ALPAC is a FortisAlberta distribution connected dual-use customer with about 55 megawatts of on-site load and up to 64 megawatts of on-site generation. ALPAC has requested a transmission interconnection from the AESO, and we hope that the applications requesting the transmission connection will be filed with the Board early next year. ALPAC is concerned over the level of exit fees that FortisAlberta Inc. has requested ALPAC to pay as a result of their move from distribution to transmission. Part of these exit fees stem from the AESO's five year notification requirement which imposes charges on FortisAlberta who, in turn, impose those charges on their customers.¹

2 Alpac’s main concern is with the five year notice provision imposed under proposed Article 14.2 (b). In Alpac’s view, the five year notice provision is not appropriate for the following reasons:

   1. The five year notice provision is not required for effective system planning
   2. DTS and STS customers are not treated in a consistent and fair manner
   3. The five year notice provision is not consistent with the AESO’s proposed contribution policy
   4. System cost recovery should not be borne on exiting customers after the contribution policy related contract term
   5. The five year notice provision causes an unwarranted impact on electric distribution utility tariffs and their customers

3 We recommend that the Board direct the AESO to waive the notice period to FortisAlberta related to Alpac’s exit from the distribution network. Alpac also recommends that the notice period under Article 14.2 (b) be reduced from five years to two years and that the Board direct the AESO to further demonstrate the need for a notification period in the next GTA.

4 Alpac supports the AESO’s proposed 2006 contribution policy.

5 Alpac opposes the AESO’s proposal to initiate a 12% O&M charge on capital costs related to supply additions and all load related capital contributions.

¹ T. 87/11 – 88/04
5.1.2 Designation Of System-Customer Costs

5.1.3 Maximum Investment Formula

11 The proposed $27,000/MW/year maximum investment rate has two endearing qualities. Firstly, the investment is directly proportional to the DTS Contract Capacity and corresponding DTS revenue. Secondly, the longer the contract term, and the quantum of guaranteed DTS rate revenue, the greater the investment. Revenues are aligned with costs.

12 Alpac supports the proposed $27,000/MW/year maximum investment rate.

5.1.4 Multiple-User Pod Waiver

5.1.5 AESO Standard Facilities Definition

5.1.6 Miscellaneous contribution policy Issues

5.1.6.5 Prepaid O&M

13 Alpac objects to the proposed 12% O&M charge for the following reasons:

- The application of the 12% O&M charge is not consistent with the Transmission Regulation.
- The application of the 12% O&M charge in 2006 will result in discrimination between existing AESO customers and new AESO customers.

14 The AESO states in their application:

Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system. However, interconnections incur on-going operations and maintenance costs beyond their initial capital costs. The AESO therefore proposes to include a prepaid operations and maintenance charge to ensure load customers do not pay these costs related to generator interconnections.²

15 The Transmission Regulation indicates that the “costs of the transmission system” are to be charged to load customers:

> When considering an application for approval of the ISO tariff under sections 121 and 122 of the Act, the Board must ensure the just and reasonable costs of the transmission system are wholly charged to owners of electric distribution systems, customers who are industrial systems and persons who have made an

² Ex. 02-012-005, Prepaid Operations and Maintenance (O&M), Section 6 - Terms and Conditions of Service, p. 20 of 42
The Transmission Regulation also indicates that local interconnection costs are to be charged to generation customers:

30 When considering an application for approval of the ISO tariff under sections 121 and 122 of the Act, the Board must
(b) ensure owners of generating units are charged local interconnection costs to connect their generating unit to the transmission system, and are charged a financial contribution towards transmission system upgrades and for location-based cost of losses;

and;

16(1) The ISO must include in the ISO tariff
(a) local interconnection costs, as defined by the ISO, payable by an owner of a generating unit for connecting to the transmission system; 4

Alpaca submits that s. 30(a) of the Transmission Regulation should be interpreted to mean that all wires related costs are allocated to load customers. Alpaca further submits that s. 30(b) and s. 16(1) should not be interpreted such that generation unit owners are responsible for on-going operations and maintenance costs.

In s. 30(b) the Transmission Regulation clearly articulates that three types of costs are to be charged to owners of generating units, namely interconnection costs, a financial contribution to towards system upgrades and location based losses. With respect to the latter two, the Transmission Regulation further articulates specifically on how the charges are to be structured and applied under s. 17 and s. 22, respectively. There are no further directions in the Transmission Regulation to suggest that local interconnection costs should be expanded beyond the current practice of the recovery of capital costs.

Alpaca notes from s. 16(b) the specific wording that “local interconnection costs” are “payable by an owner of a generating unit for connecting to the transmission system.” The wording does not suggest that owners of generating units are financially responsible for the operation and ongoing maintenance of portions of the transmission system. Alpaca submits that the Transmission Regulation is fairly prescriptive and if the intent was to impose ongoing charges on owners of generating units the Transmission Regulation would have specifically so indicated.

When asked for the rationale for imposing the 12% O&M charge in 2006, the AESO responded as follows:

3 Alberta Regulation 174/2004, Electric Utilities Act, Transmission Regulation, s. 30 (emphasis added)
4 Ibid
The *Transmission Regulation* establishes in legislation the prior practice of the AESO and its predecessor organizations. With the formalization of this practice, with other changes to the AESO’s contribution policy, and with the overall review of the AESO’s terms and conditions completed as part of its 2005-2006 GTA, this Application seemed an appropriate time to introduce the prepaid operation and maintenance charge.\(^5\)

21 With respect, Alpac submits that the *Transmission Regulation* does not provide the ability for the AESO to initiate the imposition of O&M charges. Further, the AESO has not provided evidence to support the O&M charge in light of changes proposed to the terms and conditions, and specifically with respect to the proposed contribution policy.

22 The AESO has confirmed that owners of generating units have only been charged local interconnection capital charges since January 1, 1996.\(^6\) The proposed O&M charge will in effect increase the capital contribution paid by owners of new generation units by an additional 12%.\(^7\) By imposing an additional capital contribution on new generation unit owners the AESO will create an un leveled, and in our view unfair, playing field. New generating unit owners will have a competitive disadvantage compared to existing owners.

23 The AESO notes that “Vertically-integrated utilities in Alberta previously assessed a 12% prepaid operations and maintenance charge.”\(^8\) Alpac submits that if the practice of some vertically-integrated utilities charging pre-paid O&M charges was to be continued post-industry re-structuring in 1996 then the appropriate time for the AESO to implement this provision was in the first Gridco tariff in 1996. Imposing pre-paid O&M charges after a decades absence provides an unwarranted first-mover advantage for the generation unit owners who have developed projects since 1996.

24 Alpac acknowledges that the *Transmission Regulation* under s. 17 does impose a new financial contribution towards transmission system upgrade charges on new generation unit owners. However, unlike the proposed O&M charge, the new owner’s contribution charges are refundable under s. 17(4)(a).

25 Alpac submits that the AESO’s interpretation that a 12% O&M charge should be applied to a new generation units owner’s local connection costs is not supported by the *Transmission Regulation* and a significant departure from historical practice since 1996 and therefore the proposed 12% pre-paid O&M charge should not be approved.

5.1.6.6 Contract Term, Reductions, And Termination

26 Alpac supports the AESO’s proposed variable 5 to 20 year contract term.

\(^5\) Ex. 05-001, ALPAC.AESO-003 (e)
\(^6\) Ibid
\(^7\) Ex. 05-001, ALPAC.AESO-003 (d)
\(^8\) Ex. 05-001, ALPAC.AESO-003 (a)
3. That the Board direct the AESO to evaluate the need for an exit provision for AESO load customers and provide justification for the continuation of a load customer notice provision in the next GTA.

4. That the Board approve the AESO’s proposed contribution policy (Article 9) and make it effective as soon as practical after it is approved by the Board.

5. That the Board not approve the proposed 12% O&M charge and direct the AESO to collect to all wires related operation and maintenance costs under the DTS rate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 16TH DAY OF MAY 2005.

Stantec Consulting Limited

W. Dale Hildebrand, P.Eng., M.B.A.
Consultant to Alpac
5.1.6.4 Contribution Refunds

With respect to contribution refunds, the AESO states:

The AESO has determined that the administrative cost to refund load customer contributions are relatively small, particularly in light of the need for a similar process described in the next section of this Application in respect of generator system contributions as required by the Transmission Regulation. Consequently, the AESO is prepared to track and refund load customer contributions over a twenty year period, at no direct cost to customers. The associated terms and conditions of service remain unchanged. However, given that the above noted administrative cost is relatively small, the AESO proposes to eliminate the $50,000 refund threshold in the AESO’s current terms and conditions.” [Section 6; p.20]

FIRM’s recommendations in this Argument with respect to system versus customer facilities and reclassification of customer facilities as system facilities for DTS customers and associated contribution refunds are different from those proposed by the AESO. Given FIRM’s recommendations are more consistent with existing contribution refund policies, FIRM submits the $50,000 threshold for contribution refunds should also be maintained to mitigate administrative costs.

Summary –

FIRM’s recommendations in this Argument on system versus customer facilities and reclassification of customer facilities as system facilities and resulting contribution refunds are different from those proposed by the AESO. Given FIRM’s recommendations are more consistent with existing contribution refund policies, FIRM submits the $50,000 threshold for contribution refunds should also be maintained to mitigate administrative costs.

5.1.6.5 Prepaid O&M

The AESO’s proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers
and on facilities in excess of AESO standard facilities for all customers.

FIRM examined the AESO on why the 12% charge is considered appropriate when ALPAC.AESO-3(c) indicates the percent to be higher. In response, the AESO indicates the 12% number was used in the past and is a reasonable place to start while the issue of the appropriate O&M level is examined in more detail. [T283;L14]

In ALPAC.AESO-3(f), the AESO provides Riders A2, A3 and A4 O&M percentages applicable to DAT customers:

<table>
<thead>
<tr>
<th>Rider</th>
<th>PV Annual Other Expenses Charge</th>
<th>Capital Charge</th>
<th>% of PV Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td>$405,950</td>
<td>$2,375,000</td>
<td>17.1%</td>
</tr>
<tr>
<td>A3</td>
<td>$426,683</td>
<td>$2,907,800</td>
<td>14.7%</td>
</tr>
<tr>
<td>A4</td>
<td>$819,859</td>
<td>$5,968,800</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

In ALPAC.AESO-3(h), and in reference to the above table, the AESO states:

The charges discussed in part (f) above were based on detailed estimates for specific facilities, while the proposed 12% prepaid operations and maintenance charge is a general average to be applied to a variety of projects. As such, the numbers are reasonably comparable, and support the use of a 12% charge as a minimum value until a more detailed assessment can be completed. The three DAT customers to which Riders A2, A3, and A4 apply would be treated equitably if other customers were charged a 12% or comparable prepaid operations and maintenance charge for optional facilities.

In FIRM’s submission, the 12% proposed prepaid O&M level is not supported by historical O&M levels or by Riders A2, A3 and A4 O&M levels, as shown in response to ALPAC.AESO-3. In the absence of supporting evidence, FIRM submits the prepaid O&M charge should be set, for purposes of these proceedings, at the level of the average of the Rider A2, A3 and A4 O&M percentages, or 15.2%, until the detailed review referred to by the AESO is completed.
Summary –

FIRM submits the proposed 12% level for the prepaid O&M charge is not supported by historical O&M levels or by Riders A2, A3 and A4 O&M levels. In the absence of supporting evidence and for purposes of these proceedings, FIRM recommends the prepaid O&M charge should be set at the level of the average of the Rider A2, A3 and A4 O&M percentages, or 15.2%, until the detailed review referred to by the AESO is completed.

5.1.6.6 Contract Term, Reductions, and Termination

FIRM examined the AESO with respect to the contract term reductions and terminations policy reflected in Articles 14.1 to 14.3 of the T&Cs. In particular, Article 14.1 states:

In the event that a Customer desires to reduce the Contract Capacity at an existing POD or POS, the Customer must execute an amended System Access Service Agreement and pay any associated Customer Contribution, as determined by the AESO.

Article 14.2 Notice to Reduce states, in part:

Reductions of Contract Capacity at a POD or a POS will be made five years after receipt of written notice from the Customer.

The AESO acknowledges Article 14.1 relates to recovery of customer related facilities whereas Article 14.2 relates to costs other than local costs:

I will agree that Article 14.1 does relate to the customer-related facilities and the associated customer contribution. Section 14.2 does relate to ongoing revenue requirements, which would include cost other than just local system cost. [T264;L19]

The AESO also indicates the 5 year notice period under Article 14.2 was chosen considering cost recovery for system related facilities, rate design and investment policy:
AESO has not been collecting any significant customer contributions for optional facilities in the past. The AESO further states that the “typical supply arrangement” should consider the backup requirements when the POD load exceeds 15 MVA and that the “standard of service”\textsuperscript{256}, developed by the AESO and DFOs should ensure that POD service is restored within a maximum of 24 hours. Plant outages of 4 to 7 days for larger loads in excess of 15 MVA have significant financial repercussions and are unacceptable. All of the forgoing clearly demonstrate support for TransCanada’s definition of AESO Standard Facilities.

TransCanada recommends that the Board approve the TransCanada definition of AESO Standard Facilities to generally consist of two lines of transmission circuit and two transformers to supply an individual POD for peak loads at or above 15 MVA and to generally consist of a single radial transmission circuit and a single transformer to supply an individual POD for peak loads below 15 MVA.

5.1.6 Miscellaneous Contribution Policy Issues

5.1.6.1 Dual-Use Sites
5.1.6.2 Staged Load
5.1.6.3 Cost Estimate Assumptions
5.1.6.4 Contribution Refunds

5.1.6.5 Prepaid O&M

TransCanada takes no position on issues 5.1.6.1 to 5.1.6.5 at this time, but reserves its right to make further submissions in reply argument.

5.1.6.6 Contract Term, Reductions, and Termination

Article 14.2 of the AESO Terms and Conditions contains a provision to reduce a customer’s Contract Capacity.\textsuperscript{257} The AESO tariff is unduly inflexible when no investment was made for the additional capacity used by a customer or when the customer is prepared to extend the length of the contract term (beyond the original five years) in order to ensure that revenues secured under the contract are unaffected on a net present value basis. It is the AESO’s position that the current practice that provides two options of: (i) “either continuing to pay the DTS charge during the five

\textsuperscript{256} Exhibit 02-033, TCE.AESO-238(a) Attachment, Distribution Point-of Delivery Interconnection Process Guideline – Standard of Service, page 20
\textsuperscript{257} Exhibit 02-012-006, Application, Section 7, page 69
15 Alpac submits that the principles that form the basis of the proposed contribution policy are appropriate to comply with the *Transmission Regulation* and to provide greater harmony with the four Board regulated electric distribution utilities.

5.1.2 Designation Of System-Customer Costs

5.1.3 Maximum Investment Formula

16 As noted in section 5.1.1 High Level Policy Principles above, some interested parties are concerned that the maximum investment level is too high. With respect, the setting of the maximum investment level should be based on the principle of 80% of new extensions not requiring a customer contribution. Arguments presented on the average costs to serve existing or new customers do not suggest that the test for setting the maximum investment level has been violated and hence there is no justification for reducing the maximum investment rate.

5.1.4 Multiple-User Pod Waiver

17 There are diverging views on the appropriateness of a multi-user waiver and the implications for tariff design in both the short and long term. Alpac does not have a view on the appropriateness of a multi-user waiver. Alpac is concerned that the issue of who pays for electric distribution utility capital contributions may have an impact on the design of the AESO’s contribution policy. With respect, Alpac submits that the AESO’s contribution policy design should be tested and approved without consideration of the multi-user waiver issue. Once the AESO’s contribution policy is set issues regarding its application (e.g. multi-user waiver) should then be addressed.

5.1.5 AESO Standard Facilities Definition

5.1.6 Miscellaneous Contribution Policy Issues

5.1.6.5 Prepaid O&M

18 The FIRM Customers support a pre-paid O&M charge and suggest the rate should be higher than 12%. With respect, Alpac submits that the Board should first determine if a pre-paid O&M charge is appropriate under the AESO’s postage stamp tariff and at this juncture in the development of the electric energy industry in Alberta. As suggest by Alpac is argument, the pre-paid O&M charge may not be consistent with the *Transmission Regulation* and will be a significant departure from the AESO’s tariff over the past decade.

5.1.6.6 Contract Term, Reductions, And Termination

19 The FIRM Customers note that “the AESO has not made any assessment of whether the present notice period is adequate” as the FIRM considers that “the notice period is

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12 Firm Customer Argument, p. 101-103
13 Alpac Argument, p. 3-5
5.1.6.5 Prepaid O&M

Alpac submits s.30 (a) of the *Transmission Regulation* should be interpreted to mean all wires related costs are allocated to load customers. Alpac further submits s.30 (b) and s.16 (1) should not be interpreted to mean generation unit owners are responsible for on-going operations and maintenance costs.

In addition to the foregoing, Alpac submits the AESO’s interpretation a 12% O&M charge should be applied to a new generation units owner’s local connection costs is not supported by the *Transmission Regulation* and is a significant departure from historical practice since 1996. Therefore, Alpac recommends the proposed 12% pre-paid O&M charge not be approved.

In response, FIRM notes s.16 (1) of the Transmission Regulations states:

\[
\text{s.16 (1) The ISO must include in the ISO tariff:}
\]

\[
\text{a) local interconnection costs as defined by the ISO, payable by an owner of a generating unit for connecting to the transmission system;}
\]

\[
\text{b) the terms and conditions of service and provisions for the recovery of local interconnection costs from owners of generating units.}
\]

In FIRM’s submission, the legislation is clear the local interconnection costs “as defined by the AESO” are payable by the owner of a generating unit. The AESO has defined the local interconnection costs to be the capital cost of the interconnection, including the prepaid O&M associated with maintaining the line over its life. This is consistent with sound regulatory principles and practice where the cost responsibility for the asset, as well as the associated operating and maintenance expenses, are attributed to the same party or rate class. On the contrary, Alpac’s recommendation would result in splitting responsibility for the capital cost from responsibility for operating costs and this is not consistent with the principles of cost causation. Accordingly, Alpac’s recommendation to remove O&M expense associated with generator local interconnections from load customers should be rejected.
FIRM notes the purpose of prepaid O&M expenses is to offset future O&M expenses during the life of the local interconnection facility. Accordingly, FIRM recommends any prepaid O&M expenses should be treated by the AESO as a contribution and amortized over the life of the facility.

Summary –

Alpac’s recommendation to remove O&M expense associated with generator local interconnections from load customers should be rejected. Further, FIRM notes the purpose of prepaid O&M expenses is to offset future O&M expenses during the life of the local interconnection facility. Accordingly, FIRM recommends any prepaid O&M expenses should be treated by the AESO as a contribution and amortized over the life of the facility.

5.1.6.6 Contract Term, Reductions, and Termination

Alpac submits the minimum notice period for exiting or load reducing customers should be reduced from the 5 year period proposed by the AESO under Article 14.2 of the T&Cs to 2 years. Further, since the AESO only plans for DTS Contract Capacity, Alpac recommends the financial penalty for not providing adequate notice should be based on DTS Contract Capacity, not on the highest Metered Demand. [Alpac Argument, p.17] In support of the reduction from a 5 year to a 2 year notice period, Alpac submits the following:

- The AESO’s desire to extract perfect load reduction information from its customers via the five year notice period is unwarranted. Considering the limited value of this information when compared to the more significant impact load growth and supply addition information will have on the AESO’s transmission planning process, the proposed Article 14.2 provisions are excessive. [Ibid, p.8]
Reference: AESO 2006 GTA (Application 1363012), Section 6, p. 21
Title: Derivation of Charge
Preamble: The AESO's 2006 GTA states the following at p. 21:

“For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.”

Request:

(a) Please provide the AESO’s rationale for considering that a charge based on a percentage of an interconnection project’s capital cost represents a reasonable estimator of future operations and maintenance costs arising from an interconnection project?

(b) Please confirm that:

- the 12% level of the charge proposed in the AESO’s 2006 GTA was adopted because it was believed to be the minimum reasonable level for such a charge (i.e. that the AESO believed that incremental operations and maintenance costs caused arising from interconnection projects would typically be higher); and

- the 12% charge was not designed to precisely match or offset the expected future amount of operation and maintenance costs arising from an interconnection project.

If the above cannot be confirmed, please explain.

(c) Recognizing that the prepaid O&M charge proposed by the AESO in the 2006 GTA proceeding was intended to be applied only on the optional portion of interconnection project capital costs for DTS customers, please confirm whether the AESO considers that a 12% charge applied to an interconnection project’s total (i.e. standard facility plus optional facility) capital costs represents the minimum amount of the cost of future operations and maintenance costs caused by an interconnection project. If this cannot be confirmed, please explain.

(d) To the extent that the 12% charge adopted by the EUB in Decision 2005-096 was described in Application 1363012 as the minimum amount for such a charge (i.e. that the charge would not cover anticipated future O&M costs expected to arise from the majority of interconnection projects), please comment on the proposition that use of a minimal
rather than average target level for the charge has the effect of partially mitigating potential “double-charging” (i.e. through the inclusion of O&M costs both as part of the customer contribution and within DTS rates) that may be caused by applying the 12% charge on AESO standard facility related interconnection project capital costs.

(e) Please confirm that if the maximum investment allowance calculated for a DTS interconnection project is greater than the combined amount of:

- the interconnection project’s standard facility related capital costs; and
- the portion of the 12% O&M charge based on standard facility related capital costs

the AESO does not consider the fact that O&M costs arising from the interconnection project are included in DTS rates will give rise to a double-charge to the interconnecting DTS customer. If this cannot be confirmed, please explain.

Response:

(a) A frequent methodology in cost of service analysis is to functionalize, allocate, and classify capital costs, and then treat operation and maintenance costs associated with that capital in the same manner. This approach was followed by the AESO as part of its implementation of the results from the Alberta Transmission System Wires Only Cost Causation Study in its 2006 GTA, and was essentially approved in Decision 2005-096. Since O&M costs are assumed to follow capital costs in the base DTS rate, it seemed reasonable to assess an O&M charge that varied directly with capital costs in the same manner.

As well, in economic analysis developed by the AESO, such as that underlying the Primary Service Credit analysis included in the AESO’s 2006 GTA, O&M costs were estimated to vary directly with capital assets at 2% of capital costs.

Finally, the prepaid O&M charge assessed by FortisAlberta is approved as a percentage of capital costs in FortisAlberta’s Customer Terms and Conditions of Distribution Access Service.

For all these reasons, the AESO considered that a charge based on a percentage of an interconnection project’s capital costs represents a reasonable estimate of O&M costs.

The AESO notes, however, that such a percentage represents an average over the life of an interconnection and will likely vary significantly from year to year, based on equipment maintenance cycles, equipment age, environmental conditions, equipment loading, and other factors. The AESO further notes that Decision 2005-096 directed, and Decision 2007-106 reiterated, that the AESO conduct further analysis of the appropriate amount of the O&M charge and investigate the relationship between incremental TFO O&M and capital costs.

(b) Confirmed. For additional information, please refer to the following material included in Attachment AUC.AESCO-001 (a)-A:

- page 21 of section 6 of the AESO’s 2006 General Tariff Application,
- Information Response ALPAC.AESCO-003 in the AESO’s 2006 GTA proceeding,
• oral evidence of the AESO in transcript pages 282-283 of the 2006 GTA hearing on April 11, 2005.

(c) Confirmed. The information relied on by the AESO in proposing a 12% level for the O&M charge did not differentiate between O&M costs attributable to standard facilities and those attributable to facilities in excess of standard.

(d) In general, reducing the O&M charge will mitigate, but not eliminate, the effects of the charge discussed in section 2 of the AESO's evidence filed on January 8, 2009 in this review and variance proceeding. This would include reducing, but not eliminating, the result that DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions.

However, mitigating the effects of the O&M charge by using a minimal or nominal level (rather than a higher level that represents average or typical O&M costs associated with an interconnection) seems counterintuitive to the considerations highlighted in Decision 2005-096 (pages 66 and 67), specifically:

• that the O&M charge “send appropriate economic siting and facility development signals”, and
• that O&M costs associated with standard facilities should not be presumed to “fall below the level permitted under the maximum investment allowance.”

The AESO is unable to suggest a rationale for concluding that an average or typical O&M charge should be considered inappropriate but that some lower level of charge is appropriate, in the context of the considerations in Decision 2005-096 and the effects discussed in the AESO’s evidence.

As well, Information Response ALPAC.AESO-003 in the AESO’s 2006 GTA proceeding (included in Attachment AUC.AESO-001 (a)-A) indicated a potentially wide range of possible levels for the O&M charge. It is not clear to the AESO how an appropriately low level for the O&M charge could be developed and sustained in future tariff applications, given the limitations in data to study TFO O&M costs discussed in Information Response AUC.AESO-006 in this review and variance proceeding.

(e) Confirmed. As discussed in section 2 of the AESO’s evidence in this review and variance proceeding, a DTS customer who connected to the transmission system prior to January 1, 2006 (prior to the addition of the O&M charge) pays the same DTS rate as one who connected to the transmission system in 2006 or later (after the addition of the O&M charge). If neither customer paid a customer contribution, then each customer would pay only the O&M costs recovered through the DTS rate.
Reference: January 8, 2009 Evidence, Section 2, p. 2

Title: Intergenerational Equity

Preamble: Bullet 2 of the “Effects of the 12% Prepaid O&M Charge” section of the AESO’s January 8, 2009 Evidence states:

“DTS customers who paid contributions prior to January 1, 2006 (that is, prior to the addition of the O&M charge) would pay only the O&M costs recovered through the DTS rate. DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) would pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions. The DTS rate is the same for both groups of customers, resulting in intergenerational inequity between those groups.”

Request:

Does the AESO agree that to the extent that an O&M charge based on the standard facility related costs of an interconnection project is made known to an interconnecting DTS customer prior to making a definitive investment decision, the goal of sending cost causation signals should be considered to be of greater importance than potential intergenerational equity considerations? If the AESO does not agree, please explain.

Response:

The AESO agrees that sending cost causation signals is of greater importance. The signals given, however, must reasonably represent the costs being caused.

The AESO recognizes that the cost causation signal provided to a DTS customer includes both:
(i) the customer contribution related to the customer’s interconnection, if any, and
(ii) monthly charges paid over time in accordance with the DTS rate for the service.

As discussed in section 2 of the AESO’s evidence in this review and variance proceeding, DTS customers who paid contributions in 2006 and later years would pay both the O&M costs recovered through contributions and the O&M costs recovered through the DTS rate. In effect, those customers would receive an inappropriately inflated cost signal that represents more than the costs being caused by their services.

DTS customers who paid contributions prior to January 1, 2006, would not receive such an inflated signal.

Thus, the AESO’s primary concern is the inappropriate inflation of the cost causation signal for customers who paid contributions in 2006 and later years. The secondary relevant concern is that this also results in intergenerational inequity.
Reference: Decision 2007-106, Section 8.1.2.2, pp. 96-98

Title: Maximum Investment Function Multiplier Analysis

Preamble: In section 8.1.2.2 of Decision 2007-106, the Board approved the maximum investment function for interconnection projects. The approved investment function was derived by multiplying the POD cost function approved by the Board in section 5.7.7 of Decision 2007-106 by a 1.15 multiplier that approximated a multiplier of 1.15149 proposed by the AESO in its 2007 GTA.

In consideration that:

- the 1.15149 multiplier proposed by the AESO may have assumed that the Board would also approve the treatment of the O&M charge proposed by the AESO in its 2007 GTA; and

- the 48 project cost data points considered by the Board in its assessment of the AESO’s proposed 1.15149 multiplier (described in section 8.1.2.2 of Decision 2007-106) did not reflect the 12% O&M charge;

Commission staff wish to understand how, if at all, the 1.15 multiplier approved by the Board in Decision 2007-106 should be adjusted to take into account the effect of the O&M charge on interconnecting customers.

Request:

(a) Using the 48 point data set described in section 8.1.2.2 of Decision 2007-106 and the POD cost function approved in section 5.7.7 of Decision 2007-106, please replicate the multiplier analysis described in section 8.1.2.2 of Decision 2007-106. For the purpose of this analysis, please increase the 48 project cost data points by 12% to reflect the effect of the O&M charge as approved in Decision 2007-106 on interconnection project costs.

(b) In consideration of the analysis described in part (a) above, please recommend an appropriate multiplier of the POD cost function approved in section 5.7.7 of Decision 2007-106. For the purpose of this response, please assume that the O&M charge set out in Article 9.4 of the approved AESO tariff T&Cs remains in place.

(c) Please provide a full justification for the multiplier recommended in the response to part (b) above. This response should take into account the Board’s findings in regard to the application of the “80/20” rule as described in section 8.1.2.1 of Decision and in particular the following contribution policy design considerations set out at p. 94 of Decision 2007-106:
the underlying purpose of the contribution policy is to send economic signals to AESO customers when considering alternatives for siting their interconnecting loads;

an excessive investment allowance could provide incentives for customers to pursue higher standards of interconnection facilities than required and justify doing so on the basis that the cost of the higher standard facilities would not exceed the permitted investment allowance;

because the incremental revenue approach may place undue upward pressure on rates, maximum investment allowances should be at a level below a level representing the incremental revenues expected to arise from the interconnection of a new customer;

investment allowances should be set with regard to the anticipated costs of establishing an interconnection reflecting acceptable standards of functionality and service established by the AESO;

interconnection facility service characteristics and standards of functionality may change over time.

Response:

(a) The POD cost function approved in section 5.7.7 (page 55) of Decision 2007-106 was:

\[
\text{Cost} = 0.894\text{ million} + \\
0.503\text{ million/MW for the first 7.5 MW} + \\
0.174\text{ million/MW for the next 9.5 MW} + \\
0.102\text{ million/MW for the next 23 MW} + \\
0.054\text{ million/MW for all MW above 40 MW}
\]

The following columns are included in attached Schedule BR.AESO-004 (a)-A to replicate the multiplier analysis described in section 8.1.2.2 (pages 96-98) of Decision 2007-106:

(i) Columns A and B contain the original capacities and costs for the 48 point data set used in the original multiplier analysis.

(ii) Column C increases the costs for the data points by 12% to reflect the effect of the O&M charge.

(iii) Column D calculates the POD costs using the approved POD cost function provided above.

(iv) Column E increases the calculated POD costs by the multiplier of 1.288 (indicated at the top of the column) to provide the maximum investment available.

(v) Column F provides the actual investment determined as the lesser of the cost plus 12% O&M from Column C or the maximum investment from Column E.

(vi) Column G calculates, in percent, how much of the increased data point cost in Column C is covered by the actual investment in Column F.
(vii) Column H then indicates into which of the cost coverage groups discussed in section 8.1.2.2 the data point falls.

(viii) Finally, below the data in Schedule BR.AESO-004 (a)-A in columns E, F, and G, a summary table provides the frequency of data points in the cost coverage groups discussed section 8.1.2.2 of Decision 2007-106.

Section 8.1.2.2 of Decision 2007-106 began with an evaluation of cost functions in 0.05 multiplier increments until such time as 80% of the 48 point dataset projects would receive full investment. A similar analysis is provided in attached Schedule AUC.AESO-004 (a)-B, with the costs for the data points increased by 12% to reflect the effect of the O&M charge. Almost 80% of the 48 point TFO project cost data points were fully covered by investment using a multiplier of 1.50 applied to the approved POD cost function. A graph of the investment function based on this data is shown below.

The AESO further assessed the level of multiplier required by increasing the original multiplier by 12%, to $1.15 \times 1.12 = 1.288$. A multiplier of 1.288 provides cost coverage equivalent to that discussed on page 97 of Decision 2007-106. Specifically, a multiplier of 1.288 results in 27 data points receiving full investment, six data points receiving at least 90% but less than 100% investment, and another five data points receiving at least 80% but less than 90% investment. As such, 38 out of 48 data points, or 79.2% of the data points, receive at least 80% investment and the majority of these points receive full investment.

The graph above shows the data points that have at least 80% of their costs covered by investment using the approved POD cost function and a multiplier of 1.288.
The multiplier of 1.288 provides similar results if a 30-point “greenfield” subset of the 48-point dataset is used,

(b) Based on the analysis in part (a) above, the AESO considers a multiplier of 1.288 would satisfy the criteria discussed in section 8.1.2.2 of Decision 2007-106, assuming the O&M charge is Article 9.4 of the approved AESO terms and conditions remains in place.

(c) In part (b) above, the AESO considered a multiplier of 1.288 would satisfy the same criteria used to assess the original multiplier in Decision 2007-106. In particular, with a multiplier of 1.288 about 80% of projects have at least 80% of their costs covered through investment and the majority (56%) of those projects have their costs fully covered by investment. A multiplier of 1.288 therefore accounts for the “80/20” rule described in section 8.1.2.1 of Decision 2007-106, as discussed in more detail in part (a) above. The AESO notes, however, that Decision 2007-106 clearly stated on page 98 that “an 80/20 rule is not to be relied on in future when amending the maximum investment policy.”

The AESO provides the following further comments on the contribution policy design considerations set out on page 94 of Decision 2007-106

(i) **Sending of economic signals** — As discussed in Information Response AUC.AESO-003, the economic signal provided to a DTS customer includes both the customer contribution and the monthly charges paid under the DTS rate. The AESO considers that customer contributions based on an investment level determined using a multiplier of 1.288 provides a reasonable economic signal. The same projects would pay contributions and receive the related economic signals from a multiplier of 1.288 when project costs include 12% O&M, as from a multiplier of 1.15 when project costs exclude 12% O&M. The AESO notes that in the former case the signals would be inflated as discussed in Information Response AUC.AESO-003.

(ii) **Removal of incentives to pursue facilities beyond those required** — The AESO first notes that standard facilities to connect a customer are determined by the AESO to be the least-cost facilities which meet good transmission practice including applicable reliability, protection, and operating criteria and standards. Under Article 9 of the AESO’s terms and conditions of service, a customer does not receive more in investment than the cost of standard facilities, which therefore limits the opportunity for a customer to pursue higher standards of facilities than required simply because additional investment is available. Furthermore, as noted above, with a multiplier of 1.288 slightly over half (56%) of projects are expected to have their costs for standard facilities fully covered by investment. The other 44% of projects will all require a customer contribution of some amount, and any additional facilities beyond the maximum investment level will be fully paid for by the customer. The AESO considers a multiplier of 1.288 therefore effectively limits the incentive for customers to pursue higher standards of facilities.

(iii) **Avoidance of undue upward pressure on rates** — The AESO is unable to directly assess the incremental revenues expected from the interconnection of a new customer due to the nature of TFO cost recovery through the AESO’s DTS rate. Specifically, the interconnection of a customer gives rise to TFO costs,
those costs are included in the TFO’s revenue requirement charged to the AESO through the TFO’s tariff, the TFO’s tariff charges are aggregated with corresponding charges from other TFOs, and all TFO charges plus the AESO’s own costs are recovered from customers through the interconnection charge designed on the basis of a wires cost causation study. Any attempt to trace through this process the incremental revenues expected from a new customer would likely not provide meaningful results.

However, the AESO notes that if interconnection project costs escalate over time at approximately the same rate as other TFO capital costs, and if the maximum investment level results in approximately the same proportion of interconnection project costs being covered by investment, then the maximum investment allowances should not place undue upward pressure on rates. The AESO notes that Table 6.1.1 on pages 8-9 of section 6 of the AESO’s 2006 General Tariff Application showed that the contribution policy in place prior to 2006 would have provided $251.7 million of investment towards 60 projects totaling $263.4 million, thereby covering about 96% of the total cost of those projects. Schedule BR.AESO-004 (a)-A provided in part (a) above shows that a multiplier of 1.288 would provide $307.1 million of investment towards 48 projects totaling $350.6 million (including 12% O&M), covering about 88% of the total costs of those projects. (The AESO does not have similar data available to assess the coverage of the investment level in place under the AESO’s 2006 tariff.) Based on this simple comparison, the AESO concludes that a multiplier of 1.288 would not place any undue upward pressure on rates, compared to the maximum investment allowances in place prior to 2006.

(iv) **Anticipated costs of an interconnection** — As the investment allowance discussed in part (a) above was based on the cost of standard facilities for actual interconnection projects, the AESO considers that the resulting 1.288 multiplier appropriately considers the costs of interconnection.

(v) **Changes to service characteristics and standards of functionality** — As the investment allowance discussed in part (a) above was based on recent projects which reflect current service characteristics and standards of functionality, the AESO considers that the resulting 1.288 multiplier appropriately considers such factors. As well, as additional interconnections are added to the project data set, the impact of changing service characteristics and standards of functionality will be gradually reflected in the resulting investment levels over time.
Reference:  AESO January 8, 2009 Evidence, Section 2, p. 2
AESO January 8, 2009 Evidence, Section 3, p. 4
Decision 2005-096,
Decision 2007-106, Section 9.2

Title:   Harmonization with DFO Contribution Policies

Preamble: Whereas certain Decision 2005-096 directions mandated the AESO to advance efforts to harmonize customer contribution policies and service standards of the AESO and DFOs, at p. 119 of Decision 2007-106, the Board found that the AESO was not required to continue discussions with distribution facility owners (DFOs) regarding contribution policy harmonization as set out in the Decision 2005-096 directions.

Notwithstanding the completion of Board directions regarding AESO/DFO contribution policy harmonization, the AESO’s January 8, 2009 evidence states the following at p. 2:

“The AESO’s contribution policy will include an O&M charge on all costs, while the contribution policies of distribution facility owners (“DFOs”) will not include an O&M charge or will include an O&M charge only on “optional facilities” for load customers. These differences will reduce the harmonization between the AESO’s and DFOs’ contribution policies.”

The AESO’s January 8, 2009 evidence also states the following at p. 4:

“The AESO also understands that no DFO in Alberta currently adds an O&M charge to the cost of facilities necessary to provide service to a load customer, whether the cost of those facilities is below or above the DFO’s maximum investment. As well, one DFO, FortisAlberta, adds a prepaid O&M charge only to facilities beyond those required for the provision of standard service. The AESO therefore submits that assessing an O&M charge only on facilities in excess of standard increases consistency with DFO contribution policies.”

Request:

(a) Please provide all relevant excerpts from DFO tariff T&Cs relied on by the AESO to support its contention that DFO tariff policies respecting O&M charges on interconnection projects are comparable to the AESO’s proposals regarding the O&M charge.

(b) Given the above-referenced finding in Decision 2007-106 that Decision 2005-096 directions to the AESO to advance the harmonization of AESO and DFO contribution polices need not be continued, please explain why the Commission should afford weight to the fact that the DFOs either do not include an O&M charge or only apply O&M
charges in conjunction with optional facilities as the Commission makes its determinations in respect of the O&M charge.

(c) To the extent that it is deemed desirable to harmonize the consideration of the O&M charge under the AESO’s tariff with practices set out in DFO tariffs, please explain why the Commission should seek to have AESO tariff practices regarding the O&M charge be harmonized with DFO tariff practices rather than seeking to have DFO tariff practices harmonized with the O&M charge set out in the AESO’s tariff?

Response:

(a) For FortisAlberta, its Customer Terms and Conditions of Distribution Access Service (effective January 1, 2009) include the following:

7.2.2 Other Contributions

Cost of Optional Facilities

If the Customer requests Facilities beyond or different from those Facilities reasonably or normally required for the provision of Standard Service, as covered in the Customer Extension Costs, the Customer will pay the cost of those optional Facilities, plus prepaid operation and maintenance as indicated in Table 4 of Appendix “B” attached hereto. Such payment is only refundable, in whole or in part as determined by FortisAlberta, if the optional Facilities are deemed by FortisAlberta to be standard (eg. a Load increase) within 10 years of the original payment date. (underlining added)

The referenced Table 4 of Appendix “B” provides, for load customers:

<table>
<thead>
<tr>
<th>Optional Facilities for Distribution Load Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid O&amp;M Charge</td>
</tr>
<tr>
<td>20% of Optional Facilities Cost</td>
</tr>
</tbody>
</table>

The AESO is not aware of any provisions applicable to load customers and similar to O&M charges on interconnection projects being included in the current terms and conditions of ATCO Electric, ENMAX Power, EPCOR Distribution & Transmission, Lethbridge Electric Utility, or Red Deer Electric Light & Power.

The AESO summarized these findings in section 3 of its evidence in this review and variance proceeding as follows:

The AESO also understands that no DFO in Alberta currently adds an O&M charge to the cost of facilities necessary to provide service to a load customer, whether the cost of those facilities is below or above the DFO’s maximum investment. As well, one DFO, FortisAlberta, adds a prepaid O&M charge only to facilities beyond those required for the provision of standard service.
(b) The discussion of harmonization of AESO and DFO contribution policies in section 9.2 of Decision 1007-106 included the following:

The Board is encouraged by the AESO’s efforts to comply with these directions and considers that the requirements of the harmonization related directions from Decision 2005-096 have been addressed in full. As such, while the AESO may choose to continue discussions with Discos, which were originally commenced to comply with the Board’s 2005-096 harmonization directions, the Board direction to continue to do so is no longer required. (page 119)

Given the encouragement provided by the AESO’s efforts and the permission for the AESO to continue harmonization discussions with the DFOs, the AESO interprets the comments in Decision 2007-106 as recognizing value in the harmonization of AESO and DFO tariffs, despite there being no requirement for specific harmonization directions.

In any event, the AESO considers that a customer should receive cost signals which encourage the choice of the most economic option for service to that customer, regardless of whether that option involves a transmission or a distribution connection. If the tariffs of the AESO or the DFOs could influence a customer to prefer other than the most economic option, the AESO suggests harmonization of the tariff provisions which cause such unwarranted influence would be worthwhile. The AESO considers such efforts worth pursuing whether or not the AUC has issued specific directions regarding harmonization.

(c) The AESO generally considers, first and foremost, that the tariffs of both the AESO and DFOs should contain appropriate, relevant, and reasonable provisions for customer connections. Where such provisions are applicable to both transmission and distribution connections, they would presumably appear in the tariffs of both the AESO and all DFOs.

However, if a tariff provision results in both benefits and disadvantages such that it is not clearly appropriate, relevant, and reasonable, it may be helpful to also consider harmonization issues. In such a case the AESO suggests it would be more efficient and expedient to change one tariff (the AESO’s) rather than multiple tariffs of several DFOs. As well, a change to the AESO’s tariff directly affects only the AESO’s customers, which number less than a hundred, whereas a change to the DFOs’ tariffs directly affects thousands of customers, even if limited to the DFOs’ rate classes for large customers.
Reference: Decision 2005-096, p. 69
Title: Relationship of O&M Charge to Underlying O&M Costs

Preamble: It is noted that whereas Decision 2005-096 set out a number of directions to conduct contribution policy research in anticipation of its 2008 GTA, the AESO advanced work on some Decision 2005-096 contribution policy related directions so that the results of the AESO’s research could be taken into account within the AESO’s 2007 GTA.

In contrast, the following direction at p. 69 of Decision 2005-096 directed the AESO complete research into the decision of the O&M charge no later than the AESO’s 2008 GTA but was not advanced into the AESO’s 2007 GTA:

“While the Board believes that the adoption of a 12% prepaid O&M surcharge is directionally appropriate and should be applied for the purposes of the 2006 tariff, the Board is not convinced that sufficient evidence has been gathered to determine that 12% figure appropriately tracks costs. Accordingly, the Board directs the AESO to conduct further analysis of the appropriate amount of the prepaid O&M surcharge and to reflect their findings in the design of the surcharge included no later than with the AESO’s 2008 General Tariff Application.”

Request:

Please confirm that because the AESO did not advance its research on the derivation of the pre-paid O&M charge so that such research could be discussed in the context of the 2007 GTA, the only evidence available to the Board to assess the relationship between the 12% prepaid O&M charge and underlying O&M costs was evidence provided in the AESO’s 2006 tariff proceeding that was filed in the 2007 GTA proceeding through information request responses. If this cannot be confirmed, please explain. If the AESO considers that pertinent evidence beyond the evidence filed in the 2006 proceeding was brought forward in the 2007 GTA proceeding to support the reasonableness of the 12% O&M charge in relation to underlying O&M costs, please provide such evidence.

Response:

The following discussion of TFO operations, maintenance, and administration (“OM&A”) costs was included in the 2006 Transmission Cost Causation Update prepared by PS Technologies Inc. and filed as Appendix C to the AESO’s 2007 GTA (pages 54-55):

TFO GTA’s contain some information regarding the components of OM&A but this information is insufficient to functionalize OM&A costs in alignment with the functional definitions in use in the TCCS Study. Additional study would be required to determine the OM&A of facilities as they age. Conventional wisdom
indicates that OM&A costs increase as facilities age and this relationship for facilities in Alberta must be understood to properly functionize these costs.

The OM&A costs were not studied because work was focused in other areas such as classification of Bulk System costs. A study of OM&A costs must ensure that functionalization of OM&A costs is aligned with the functions in the cost study, and that the current distinction between Local System and POD system may change….

At this time, there is insufficient data to properly allocate OM&A costs by function, vintage or equipment type.

Based on the lack of sufficient data to study TFO O&M costs and the focus of work on other areas of its application, the AESO proposed to defer further analysis on an appropriate prepaid O&M rate until its 2008 GTA (as summarized in section 8.1 of its 2007 application).

The AESO accordingly confirms there was no additional evidence available in the 2007 GTA proceeding against which to assess the relationship between the 12% prepaid O&M charge and underlying O&M costs.

The AESO also considers that the level of the O&M charge should not be a significant factor in considering the effects of the charge within the context of the AESO’s contribution policy. The effects of the O&M charge should be examined on the basis of underlying principles. The level of the charge may then be determined separately at a later date, if necessary.
March 25, 2009

Submitted via AUC Digital Data Submission (DDS) System

Alberta Utilities Commission
Utilities Division, Calgary Office
Fifth Avenue Place
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Calgary, Alberta
T2P 3L8

Attention: Cameron Taylor, Application Officer

Dear Cameron:

Re: AESO Argument in Review and Variance of Decision 2007-106
Application No. 1566390 and Proceeding ID 108

The Alberta Electric System Operator (“AESO”) provides the following argument on the above-noted application, in accordance with the schedule set out in the January 7, 2009 letter of the Alberta Utilities Commission (“AUC”).

In preparing this argument the AESO has considered:

- relevant application materials and other evidence previously filed by the AESO and other parties in the AESO’s 2006 General Tariff Application (“GTA”), provided by the AESO as attachments to Information Response AUC.AESO-001 (a) filed on March 6, 2009 in this proceeding;
- relevant evidence previously filed by the AESO in the AESO’s 2007 GTA, provided by the AESO as an attachment to its evidence filed on January 8, 2009 in this proceeding;
- section 8.3 (pages 105-107) of Decision 2007-106 on the AESO’s 2007 GTA, released on December 21, 2007;
- material filed by the Applicants and other parties in support of the application for review and variance of Decision 2007-106;
- evidence filed by the AESO on January 8, 2009, and by the Applicants on January 9, 2009, both in this proceeding; and
- AESO responses to information requests from the AUC, filed on March 6, 2009 in this proceeding.

The AESO notes that references to the AUC in this argument include the Alberta Energy and Utilities Board (“EUB”) as its predecessor.
In Decision 2008-090 on the preliminary question, the AUC determined the Review Question to be, “Did the Board err in failing to adequately consider the effects of the 12% prepaid O&M charge within the context of the AESO’s contribution policy?” The AESO provides its argument in the context of the review question.

1 Effects Considered in Decision 2007-106

Section 8.3 (pages 105-107) of Decision 2007-106 considered the following aspects of the 12% prepaid O&M charge. Items 1.1 through 1.3 below first quote (in italics) specific text from Decision 2007-106, and then provide the AESO’s argument with respect to the quoted text.

1.1 The [AUC] reiterates that it considers that it is appropriate to send economic signals to AESO customers that appropriately reflect the cost causation consequences of a customer’s decisions. (page 106)

As explained by the AESO in Information Response AUC.AESO-003:

“…the cost causation signal provided to a DTS customer includes both:
(i) the customer contribution related to the customer’s interconnection, if any, and
(ii) monthly charges paid over time in accordance with the DTS rate for the service.

“As discussed in section 2 of the AESO’s evidence in this review and variance proceeding, DTS customers who paid contributions in 2006 and later years would pay both the O&M costs recovered through contributions and the O&M costs recovered through the DTS rate. In effect, those customers would receive an inappropriately inflated cost signal that represents more than the costs being caused by their services.”

The AESO’s view is consistent with the evidence of the Applicants in this proceeding, which states (page 2), “Decision 2007-106 fails to send proper economic signals and fails to appropriately reflect cost causation by double charging customers first through a prepaid amount of O&M via a customer contribution and second through the AESO tariff.” (underlining in original) Other participants in this proceeding have provided similar comments, such as Inter Pipeline Fund (“IPF”) which stated in its submission on April 10, 2008 (page 2), “IPF does not believe that cost causation is properly reflected when an over collection of certain costs is made in AESO’s rates by virtue of its ongoing DTS rate, as well as an operations and maintenance element to a capital contribution charge by a transmission facility operator.” No participant in this proceeding has supported as appropriate the payment by a customer of both the O&M costs recovered through contributions and the O&M costs recovered through the DTS rate.

The AESO considers that a cost signal which appropriately reflects the cost causation consequences of a customer’s decision should include the customer contribution and monthly DTS charges. However, the AESO submits that it is not appropriate to further inflate the cost signal by recovering O&M costs both in the customer contribution and in monthly DTS charges. In fact, such inflation of the cost signal is inconsistent with the AUC’s finding in Decision 2007-106 (page 14) that “rates based on cost causation should provide appropriate price signals” (bolding added).
1.2 To the extent that the incremental capital costs of a new interconnection are at least proportionally related to incremental TFO O&M costs, it would be inappropriate to effectively confine this relationship to the optional portion of facility capital costs.

The AESO provided the following comments in section 3 of its evidence in this proceeding:

“The AESO’s tariff defines ‘AESO Standard Facilities’ as ‘the least-cost interconnection facilities which meet good transmission practice including applicable reliability, protection, and operating criteria and standards…’ (AESO Terms and Conditions, Article 1.1). Facilities less than this would generally not be able to supply the customer’s load while meeting applicable standards…. The customer generally has no ability to reduce the cost of an interconnection below that of Standard Facilities….

“On the other hand, facilities in excess of standard are not considered necessary to supply the customer’s load and provide system access service....”

The monthly DTS charges a customer incurs are based on the MW and MWh volumes metered for the customer during a billing period. Those MW and MWh volumes would be the same whether the customer’s interconnection includes only standard facilities or both standard facilities and facilities in excess of standard, and would therefore result in the same monthly DTS charges in either case. In other words, monthly DTS charges would not recover any incremental TFO O&M costs attributable to facilities in excess of standard. If the initial customer contribution to excess facilities also does not include an O&M charge, then the incremental O&M costs attributable to the excess facilities would not be recovered from that customer at all.

Standard facilities, however, are the least-cost interconnection facilities able to supply the customer’s load while meeting applicable standards. The primary driver of incremental standard facilities cost is incremental load — that is, incremental MW and MWh volumes — of the customer. Standard facilities are therefore responsive to, and reflective of, incremental load requirements of the customer.

Monthly DTS charges are similarly responsive to, and reflective of, incremental load. Incremental MW and MWh volumes result in higher monthly DTS charges which appropriately recover incremental TFO O&M costs associated with incremental standard facilities. There is accordingly no need to recover incremental TFO O&M costs through customer contribution where that incremental O&M relates to standard facilities.

1.3 ...the [AUC] does not have any basis at this time to revise its finding in Decision 2005-096 that, on average, $0.12 of incremental TFO O&M costs will be generated by each $1.00 of capital investment in an interconnection facility.

As the AESO explained in Information Response AUC.AESO-006:

"[T]he level of the O&M charge should not be a significant factor in considering the effects of the charge within the context of the AESO’s contribution policy. The effects of the O&M charge should be examined on the basis of underlying principles. The level of the charge may then be determined separately at a later date, if necessary."
Their was no further discussion by the AUC of other effects of the 12% prepaid O&M charge in section 8.3 of Decision 2007-106.

2 Other Effects of the 12% Prepaid O&M Charge

In section 2 of its evidence in this proceeding, the AESO identified other effects in addition to those considered in section 8.3 of Decision 2007-106. Items 2.1 through 2.5 below first quote (in italics) specific text from the AESO’s evidence, and then provide additional comments with respect to the quoted text.

2.1 DTS customers who paid contributions prior to January 1, 2006 (that is, prior to the addition of the O&M charge) would pay only the O&M costs recovered through the DTS rate. DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) would pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions. The DTS rate is the same for both groups of customers, resulting in intergenerational inequity between those groups.

The AESO provided additional comments on intergenerational equity in Information Response AUC.AESO-003. That response explained:

“As discussed in section 2 of the AESO’s evidence in this review and variance proceeding, DTS customers who paid contributions in 2006 and later years would pay both the O&M costs recovered through contributions and the O&M costs recovered through the DTS rate. In effect, those customers would receive an inappropriately inflated cost signal that represents more than the costs being caused by their services.

“DTS customers who paid contributions prior to January 1, 2006, would not receive such an inflated signal.

“Thus, the AESO’s primary concern is the inappropriate inflation of the cost causation signal for customers who paid contributions in 2006 and later years. The secondary relevant concern is that this also results in intergenerational inequity.”

2.2 If the AESO’s maximum investment level is regularly adjusted such that a consistent proportion of DTS customers is not subject to contributions, the maximum investment level will generally increase to offset project cost increases due to the application of an O&M charge. Such increases will diminish any economic signals sent through the inclusion of the O&M charge in the AESO’s contribution policy.

In Information Request AUC.AESO-004, the AUC explored the derivation of an investment function that reflected the effect of the 12% O&M charge on interconnection project costs. The AESO determined that increasing the original multiplier by 12%, to $1.15 \times 112\% = 1.288$, would provide interconnection project cost coverage equivalent to that discussed on page 97 of Decision 2007-106. This is a reasonable outcome, since a 12% increase to project costs (due to the addition of an O&M charge) would be expected to result in a 12% increase to the derived investment function.
As stated in the AESO’s evidence quoted above, the 12% increase in maximum investment level would offset the 12% increase to project costs. The increase to maximum investment levels would diminish (if not eliminate) any economic signals sent through the inclusion of the O&M charge. This effect was similarly discussed in section 6.5.2 of the AESO’s 2007 GTA, where the AESO concluded that adding an O&M charge would provide very limited economic signals to customers.

The AESO notes that the higher maximum investment levels will address much of the concern respecting inappropriately inflated cost signals discussed in item 1.1 above and intergenerational equity discussed in item 2.1 above. A higher maximum investment level will reduce the contributions paid by customers, and accordingly reduce the O&M costs recovered through contributions. However, a higher maximum investment level will not address the other effects of the 12% prepaid O&M charge discussed in this argument.

The AESO also notes that, in their application, the Applicants stated (page 5):

“The problem of double-charging occurs because the POD cost function is derived from costs that excluded O&M costs. Since the maximum investment levels are derived from the POD cost function, they also currently include no provision for O&M costs.”

Information Response AUC.AESO-004 showed that adding an O&M charge to project costs and then increasing maximum investment levels by an equivalent amount would provide the same project cost coverage and would send the same economic signals as the initial AUC determination in Decision 2007-106. Such an approach would address the concern stated in the quoted section of the review application.

However, while increasing maximum investment levels would provide similar cost coverage and similar economic signals, it would increase the complexity of the determination of an appropriate maximum investment level to be used in the AESO’s contribution policy. It would be simpler to not add an O&M charge to project costs in the first place, such that maximum investment levels need not be increased as a result.

The AESO therefore submits that there is no need to increase the AESO’s maximum investment level to reflect the effect of the 12% O&M charge. Rather, the O&M charge should not be added to the cost of the standard facilities of a project (which are those costs eligible for investment).

This is consistent with the position of the Applicants stated in their application (page 7):

“An alternative approach is to attempt to correct the problem by adjusting the maximum investment level to recognize prepaid O&M costs. This is more complex and will not produce a more accurate result than simply removing the charge from standard facilities.”
2.3 The AESO’s contribution policy will include an O&M charge on all costs, while the contribution policies of distribution facility owners (“DFOs”) will not include an O&M charge or will include an O&M charge only on “optional facilities” for load customers. (page 2)

The AESO further explored the effects on harmonization of AESO and DFO contribution policies in Information Response AUC.AESO-005, and in particular noted the following:

“[T]he AESO considers that a customer should receive cost signals which encourage the choice of the most economic option for service to that customer, regardless of whether that option involves a transmission or a distribution connection. If the tariffs of the AESO or the DFOs could influence a customer to prefer other than the most economic option, the AESO suggests harmonization of the tariff provisions which cause such unwarranted influence would be worthwhile.”

The AESO also noted that “it would be more efficient and expedient to change one tariff (the AESO’s) rather than multiple tariffs of several DFOs.”

2.4 TFOs would need to modify their accounting processes to properly record the O&M charge as a prepaid expense rather than as a contribution in aid of construction. (page 3)

The AESO noted TFO accounting complexity concerns in section 6.5.2 of its 2007 GTA. The AESO further explained in Information Response BR.AESO-013 in that proceeding that TFOs may need to account for the O&M portions of contributions separately and apply them against actual O&M expenses over some appropriate period of time. The TFO processes and practices to account for the O&M charge would need to comply with generally accepted accounting principles (GAAP) as well as be consistent with the assumptions underlying the O&M charge in the AESO’s tariff.

2.5 The AESO would need to develop consistent practices to address:

- application of the O&M charge to contract terms shorter than 20 years;
- changes to the O&M charge resulting from increases, decreases, and staging of contract capacity; and
- impacts on the O&M charge of sharing of facilities or of reclassification of facilities between system and customer. (page 3)

The AESO noted tariff practice concerns in section 6.5.2 of its 2007 GTA. As well, Information Response BR.AESO-013 in that proceeding considered that the AESO’s DTS rate may need to be adjusted to recover only the net TFO O&M costs, which would reflect the total O&M expenses of all TFOs less the amounts forecast to be recovered from O&M charges paid through contributions.

3 Other Matters Raised in Information Requests

Information Request AUC.AESO-002 (d) asked whether establishing a minimum level for an O&M charge partially mitigated potential “double-charging” that may be caused by applying the O&M charge. The AESO acknowledged that reducing the O&M charge would mitigate, but not eliminate, the effects of the charge. However, the AESO further explained that it seems unreasonable to add a charge in an effort to reflect cost causation and send appropriate price
signals, and then reduce that charge because the signals sent are inappropriate. The AESO submits that a more reasonable approach would be to not add the charge to begin with.

Information Request AUC.AESO-003 suggested that as long as “an O&M charge...is made known to an interconnecting DTS customer prior to making a definitive investment decision, the goal of sending cost causation signals should be considered to be of greater importance” than other considerations. The AESO agreed that sending cost causation signals is of greater importance, but noted that the signals given must reasonably represent the costs being caused, as discussed in item 1.1 above.

4 Costs to Which the O&M Charge Could Apply

In its April 10, 2008 submission on the review and variance application, TransAlta raised the matter of distinguishing between categories of interconnection costs to which the O&M charge could apply.

In section 3 of its evidence in this proceeding, the AESO stated (page 3) that it is appropriate to assess an O&M charge on the cost of facilities in excess of standard, but inappropriate to assess such a charge on the cost of standard facilities whether above or below the AESO’s maximum investment.

At page 2 of their evidence, the Applicants supported a request “specifically to remove O&M charges for that portion of standard facilities covered by the AESO’s investment policy.” However, the Applicants also noted the AESO’s submission that an O&M charge should not apply to any standard facilities whether above or below the AESO’s maximum investment. The Applicants accordingly suggested (page 3) that the matter “may warrant further consideration by the AUC in the context of the present review application.”

The AESO considers that the comments provided in its evidence, as well as the discussion in item 1.2 of this argument, sufficiently examine the matter raised by TransAlta and demonstrate that all costs of standard facilities, whether above or below the AESO’s maximum investment, should not be subject to an O&M charge. Such an approach would address consistency, intergenerational equity, and the other concerns summarized in section 3 of the AESO’s evidence.

At page 6 of their application, the Applicants acknowledged the efficacy of such an approach and stated, “The simplest way for the [AUC] to rectify this inequity is to direct the AESO to charge 12% prepaid O&M expenses on optional facilities only.”

The AESO therefore submits, for the reasons summarized above, that an O&M charge should apply only to the cost of facilities in excess of standard, and should not apply to any costs of standard facilities whether above or below the AESO’s maximum investment.

5 Conclusion

In conclusion, and in consideration of the effects of the 12% prepaid O&M charge in the context of the AESO’s contribution policy as discussed above, the AESO submits that:

(a) the O&M charge should apply only to the cost of facilities in excess of standard (also referred to as “optional facilities”);
(b) the O&M charge should not apply to the cost of standard facilities whether below or above the maximum investment level determined for a project. and

(c) the AESO’s maximum investment level should not be modified to account for the effect of the 12% O&M charge on interconnection project costs, but should continue to be determined excluding the O&M charge (as in the currently-approved AESO tariff).

If you need any additional information related to this argument, please contact me at 403-539-2465 in Calgary or by email to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
April 14, 2009

Submitted via AUC Digital Data Submission (DDS) System

Alberta Utilities Commission
Utilities Division, Calgary Office
Fifth Avenue Place
400, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Cameron Taylor, Application Officer

Dear Cameron:

Re: AESO Reply Argument in Review and Variance of Decision 2007-106
Application No. 1566390 and Proceeding ID 108

1 The Alberta Electric System Operator (“AESO”) provides the following reply argument on the above-noted application, in accordance with the schedule set out in the January 7, 2009 letter of the Alberta Utilities Commission (“AUC”). In preparing this reply argument the AESO has considered the arguments filed by:

• the Applicants,
• AltaLink Management Ltd. (“AltaLink”),
• the Industrial Power Consumers Association of Alberta (“IPCAA”),
• Inter Pipeline Fund (“IPF”),
• the Public Institutional Consumers Association (“PICA”),
• StatoilHydro, and
• TransCanada Energy and TransCanada Keystone Pipeline GP (“TransCanada”).

2 The AESO considers that the majority of matters raised in the arguments of other parties have already been satisfactorily addressed in the AESO’s evidence, information responses, and argument, and that information need not be repeated here. Accordingly, lack of response in this reply argument to any particular matter raised in the argument of another party does not necessarily indicate the AESO’s agreement on such matter.

3 Among those who filed argument, there is a clear consensus in favour of:

• not charging 12% O&M on standard facilities below the AESO’s maximum investment level, and
• charging 12% O&M on facilities in excess of standard (also called “optional facilities”).
Among those who filed argument, a majority have also agreed that it is appropriate to not charge 12% O&M on any standard facilities, including standard facilities above the AESO’s maximum investment level. However, two parties — IPCAA and PICA — disagreed, and supported charging 12% O&M on standard facilities above the maximum investment level.

IPCAA submitted that “as the level of capital costs that can be rolled into the tariff is limited so too should the associated O&M costs.” The AESO submits that maximum investment levels have traditionally limited the capital costs rolled into utility rates in Alberta, but no such limits have applied to O&M costs. There is therefore no obvious requirement that capital and O&M costs must be similarly limited.

PICA submitted:

“If the standard facility costs exceed the maximum investment level due to length of line; the customer may not get the appropriate price signal if the standard facilities costs exceeding the maximum investment were exempted from the O&M charge.

While it could be argued the O&M on standard facility substation costs exceeding the maximum investment level could conceivably be covered by the DTS rates, which reflect the load; the structure of the AESO’s investment policy does not distinguish between load related substation costs and distance related transmission line costs.”

The AESO agrees that O&M on the substation portion of standard facilities are appropriately covered by DTS charges which reflect load. The AESO further suggests there is equally no reason to charge 12% O&M on the line portion of standard facilities. The AESO’s contribution policy does not preferentially apply investment to either the substation portion or the line portion, so treating such costs separately is not practical. Furthermore, standard facilities are already defined as the least-cost facilities which can supply a customer’s load. It is generally not possible for a customer to respond to a price signal with respect to standard facilities short of abandoning the project.

The AESO concludes that, on balance, the arguments of IPCAA and PICA are not compelling and are outweighed by the various concerns raised by the AESO and others, namely, intergenerational equity, increased complexity of the tariff, reduction in harmony of AESO and distribution facility owner tariffs, and requirements for modifications to transmission facility owner processes and AESO practices. The AESO submits that the IPCAA and PICA proposal should be rejected in favour of the position supported by the majority of participants, that being to not charge 12% O&M on any standard facilities, including standard facilities above the AESO’s maximum investment level.

Finally, although not dissenting from the majority position discussed above, TransCanada submitted in its argument (pages 5-6), “In the alternative, should the Commission believe there is insufficient information on the record to make a determination, TransCanada recommends that this matter be addressed in the AESO’s 2010 GTA and that this portion of the AESO’s Tariff be left as an interim, refundable part of their Tariff, pending a final Commission decision.”

As it stated in its argument (page 7), “The AESO considers that the comments provided in its evidence, as well as the discussion in item 1.2 of [its] argument, sufficiently examine the matter raised by TransAlta and demonstrate that all costs of standard facilities, whether above or below
the AESO’s maximum investment, should not be subject to an O&M charge." The AESO doubts that further substantive and relevant information would be forthcoming on this matter as part of a general tariff proceeding. The AESO urges the AUC to finalize the application of the 12% O&M charge in this review proceeding, and not to create additional uncertainty and inefficiency by deferring resolution of this matter to the AESO’s 2010 GTA.

If you need any additional information related to this reply argument, please contact me at 403-539-2465 in Calgary or by email to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO